

*Subject to compliance by the State with certain covenants, in the opinion of Chapman and Cutler LLP, Bond Counsel, under present law, interest on the 2008 Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Bond Counsel is also of the opinion that, under the laws of the State of Hawaii, as presently enacted and construed, interest on the 2008 Bonds is exempt from all taxation imposed by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer and estate taxes and the franchise tax imposed on banks and other financial institutions, pursuant to Chapter 235 of Title 14 of the Hawaii Revised Statutes. See "TAX MATTERS" herein for a more complete discussion.*

**\$125,175,000**  
**STATE OF HAWAII**  
**Highway Revenue Bonds**  
**Series 2008**

(Base CUSIP: 41981C)\*

**Dated: Date of Delivery**

**Due: January 1, as shown on inside cover**

The State of Hawaii Highway Revenue Bonds, Series 2008 Bonds (the "2008 Bonds"), are being issued for the purpose of providing funds to finance certain highway capital improvement projects and related projects and to pay the costs of issuance of the 2008 Bonds. The 2008 Bonds are special limited obligations of the State of Hawaii (the "State"), payable solely from and secured solely by the Pledged Funds under the Certificate, consisting principally of highway fuel license taxes, vehicle registration fees, vehicle weight taxes and rental motor vehicle and tour vehicle surcharge taxes, as more fully described in this Official Statement.

The 2008 Bonds are issuable in fully registered form and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner of the 2008 Bonds, purchases of the 2008 Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC participants; beneficial owners of the 2008 Bonds will not receive physical delivery of Bond certificates; payment of the principal of and interest on the 2008 Bonds will be made directly to DTC or its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such payments to the beneficial owners will be the responsibility of DTC participants (See "BOOK-ENTRY SYSTEM" herein). Purchases of the 2008 Bonds may be made in the denomination of \$5,000 or any integral multiple thereof.

Interest on the 2008 Bonds is payable on each January 1 and July 1 commencing July 1, 2009. The 2008 Bonds are subject to optional redemption prior to maturity as stated herein.

**The 2008 Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of the State are not pledged to the payment of the principal of or interest on the 2008 Bonds.**

The 2008 Bonds are being issued pursuant to the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds, dated as of August 1, 1993, as supplemented.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

**MATURITY SCHEDULE - See Inside Cover Page**

*The 2008 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale or withdrawal or modification of the offer without notice, and to the approving legal opinion of Chapman and Cutler LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the 2008 Bonds in definitive book-entry form will be available for delivery through the facilities of The Depository Trust Company in New York, New York, on or about December 17, 2008.*



**WACHOVIA SECURITIES**

Dated December 9, 2008

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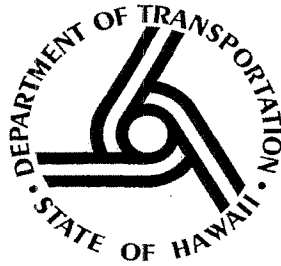
**\$125,175,000**  
**STATE OF HAWAII**  
**Highway Revenue Bonds**  
**Series 2008**

**MATURITY SCHEDULE**

<b>Maturity Date (Jan. 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP* (41981C)</b>	<b>Maturity Date (Jan. 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>CUSIP* (41981C)</b>
2010	\$3,600,000	4.000%	2.500%	HN3	2021	\$6,420,000	5.250%	5.310%	HZ6
2011	4,000,000	4.000%	2.790%	HP8	2022	6,760,000	4.750%	5.440%	JA9
2012	4,160,000	4.000%	3.200%	HQ6	2023	1,860,000	5.500%	5.520%	JB7
2013	4,325,000	5.000%	3.430%	HR4	2023	5,220,000	6.000%	5.520%**	JC5
2014	4,545,000	5.000%	3.650%	HS2	2024	7,495,000	5.500%	5.630%	JD3
2015	4,770,000	5.000%	3.860%	HT0	2025	7,910,000	5.500%	5.720%	JE1
2016	5,010,000	5.000%	4.100%	HU7	2026	8,345,000	5.750%	5.810%	JF8
2017	5,260,000	5.250%	4.380%	HV5	2027	8,825,000	5.750%	5.890%	JG6
2018	5,535,000	5.250%	4.630%	HW3	2028	9,330,000	5.750%	5.960%	JH4
2019	5,825,000	5.000%	4.920%	HX1	2029	9,865,000	6.000%	6.020%	JJ0
2020	6,115,000	5.000%	5.170%	HY9					

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\*\* Priced to call at par on January 1, 2019.



## STATE OF HAWAII

Linda Lingle, Governor  
James R. Aiona, Jr., Lieutenant Governor

## DEPARTMENT OF TRANSPORTATION

Brennon T. Morioka, Ph.D., P.E., Director

Deputy Director  
Deputy Director, Highways Division  
Deputy Director, Airports Division  
Deputy Director, Harbors Division  
Administrator, Highways Division  
Administrator, Harbors Division

Francis Paul Keeno  
Jiro A. Sumada  
Brian H. Sekiguchi  
Michael Formby  
Glenn M. Yasui  
Davis Yogi

## COMMISSION ON TRANSPORTATION

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Owen Miyamoto, Chair  
William Lindemann, Oahu, Vice-Chair  
Mel Miyamoto, Oahu  
Ku'uhaku Park, Vice-Chair

David Sproat, Kauai  
Richard Houck, Hawaii-Hilo  
David R. Marshall, Hawaii-Hilo  
Pete Pascua, Oahu  
John Romanowski, Hawaii - Hilo

## SPECIAL SERVICES

Department of Budget and Finance of the State of Hawaii  
Paying Agent and Registrar

Chapman and Cutler LLP  
Bond Counsel

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE STATE OR THE UNDERWRITER TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE STATE OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE 2008 BONDS, NOR SHALL THERE BE ANY SALE OF THE 2008 BONDS BY ANY PERSON, IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSONS TO MAKE SUCH OFFER, SOLICITATION OR SALE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2008 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE STATE SINCE THE DATE HEREOF.

THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE 2008 BONDS. THE INFORMATION AND EXPRESSIONS OF OPINION CONTAINED IN THIS OFFICIAL STATEMENT ARE SUBJECT TO CHANGE WITHOUT NOTICE. STATEMENTS CONTAINED HEREIN WHICH INVOLVE ESTIMATES, FORECASTS OR MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO DESCRIBED HEREIN, ARE INTENDED SOLELY AS SUCH AND ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT OR REPRESENTATIONS THAT THE ESTIMATES WILL BE REALIZED.

THIS OFFICIAL STATEMENT HAS BEEN "DEEMED FINAL" AS OF ITS DATE BY THE STATE PURSUANT TO RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE STATE HAS ALSO UNDERTAKEN TO PROVIDE CONTINUING DISCLOSURE ON CERTAIN MATTERS, INCLUDING ANNUAL FINANCIAL INFORMATION AND SPECIFIC MATERIAL EVENTS, AS MORE FULLY DESCRIBED HEREIN. SEE "CONTINUING DISCLOSURE" HEREIN.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE 2008 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT, NOR HAVE THEY BEEN REGISTERED UNDER THE SECURITIES LAWS OF ANY STATE.



# CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or similar words. Such forward-looking statements include, among others, statements found under “DEBT SERVICE COVERAGE—Projected Revenues,” “ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION” in Appendix B, and “GENERAL INFORMATION ABOUT THE STATE OF HAWAII” in Appendix C.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS, WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE STATE DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN CHANGES OCCUR TO ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED.

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APPENDIX C: GENERAL INFORMATION ABOUT THE STATE OF HAWAII

APPENDIX D: FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007 AND  
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## **OFFICIAL STATEMENT**

### **STATE OF HAWAII**

**\$125,175,000**

**Highway Revenue Bonds  
Series 2008**

### **INTRODUCTION**

This Official Statement, which includes the cover page and appendices (the "Official Statement"), provides information with respect to the issuance and sale by the State of Hawaii (the "State") of \$125,175,000 principal amount of State of Hawaii Highway Revenue Bonds, Series 2008 (the "2008 Bonds"). Capitalized terms not otherwise defined in this Official Statement shall have the respective meanings given to such terms in Appendix A "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Definitions of Certain Terms."

The State will issue the 2008 Bonds pursuant to the Constitution, the laws of the State and the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds dated as of August 1, 1993, as heretofore supplemented and as further supplemented by an Eighth Supplemental Certificate of the Director of Transportation Authorizing State of Hawaii Highway Revenue Bonds, Series 2008, dated as of December 1, 2008 (as so supplemented, the "Certificate"). See "THE 2008 BONDS" for a description of the 2008 Bonds.

Under the Certificate, the State has previously issued its Highway Revenue Bonds, Series 1996, Series 1998, Series 2000, Series 2001, Series 2003, and 2005 Series A and B, which, as of June 30, 2008, were outstanding in the aggregate principal amounts of \$5,830,000, \$3,029,000, \$6,690,000, \$16,975,000, \$28,905,000, and \$179,735,000, respectively (collectively, the "Outstanding Bonds"). Additional bonds and refunding bonds may subsequently be issued on a parity with the 2008 Bonds and the Outstanding Bonds (collectively with the 2008 Bonds and the Outstanding Bonds, the "Senior Bonds"), or may be issued subordinate in right of payment to the 2008 Bonds and other Senior Bonds (the "Subordinate Bonds"). The 2008 Bonds and the Outstanding Bonds and any additional Senior Bonds and Subordinate Bonds are collectively referred to in this Official Statement as the "Bonds."

The 2008 Bonds are being issued to provide moneys, together with other available moneys of the State, to finance certain highway capital improvement projects and related projects, as described in "PLAN OF FINANCE," and to pay the costs of issuance of the 2008 Bonds. See "ESTIMATED SOURCES AND USES OF THE PROCEEDS OF THE 2008 BONDS."

The Bonds are special limited obligations of the State, payable solely from and secured solely by Pledged Funds as provided under the Certificate, consisting of moneys held in the funds and accounts under the Certificate, revenues derived by the State from the ownership and operation of the statewide system of highways, streets and roads (the "State Highway System") and receipts of Pledged User Taxes related thereto, consisting principally of the highway fuel license taxes, vehicle registration fees, the vehicle weight taxes, and the rental motor vehicle and tour vehicle surcharge taxes, as described in this Official Statement under "SECURITY FOR THE BONDS." All Senior Bonds, including the 2008 Bonds, are and will be secured equally and ratably by the Pledged Funds. Receipts of the Pledged User Taxes are deposited into the State Highway Fund, a special fund created by State law in the State Treasury, for credit to the Highway Revenue Special Account created by the Certificate. The 2008 Bonds do not constitute a general or moral obligation of the State nor a charge upon the general fund of the State. The full faith and credit of the State are not pledged to the payment of or as security for the 2008

Bonds. See "SECURITY FOR THE BONDS" and "REVENUE SOURCES" for a description of the security for the Bonds and sources of Pledged Funds.

The State Highway System is owned, operated, maintained and improved by the Department of Transportation of the State (the "Department"). The Department maintains an ongoing capital improvement program (the "Program") to improve, renew and renovate the State Highway System. See "CAPITAL IMPROVEMENT PROGRAM" for a description of the Program and Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION" for a description of the State Highway System.

Every other fiscal year, the Department prepares a program of proposed capital improvement projects to the State Highway System for approval of the Governor and the Legislature of the State. The Program is funded on a biennial basis through Legislative appropriations. In the first year of a biennium budget, the Department may revise the second year of that biennium budget for presentation to the Governor for approval and to the Legislature for subsequent authorization.

The cover page and this Introduction contain certain information for general reference only. They are not intended to be a summary of the 2008 Bonds. Investors are advised to read this entire Official Statement to obtain information essential to the making of an informed investment decision. This Official Statement contains descriptions of the Department and the Program, summaries of the 2008 Bonds, the security for the Bonds and certain provisions of the Certificate. All references to the Certificate and to the 2008 Bonds are qualified by the definitive forms of such Certificate and 2008 Bonds, copies of which may be obtained from the Department at 869 Punchbowl Street, 5th floor, Honolulu, Hawaii 96813. Any statement or information involving matters of opinion or estimates are represented as opinions or estimates made in good faith, but no assurance can be given that facts will materialize as so opined or estimated.

## **PLAN OF FINANCE**

Pursuant to the Certificate, a portion of the proceeds of the sale of the 2008 Bonds will be used to finance certain highway capital improvement projects and related projects comprising portions of the State-wide system of highways, streets and roads, including the potential projects identified in Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION - THE DEPARTMENT OF TRANSPORTATION - Authorized Projects."

## **THE 2008 BONDS**

### **General**

The 2008 Bonds will be dated their date of delivery and will bear interest from such date at the rates per annum set forth on the inside cover page of this Official Statement, and will mature on January 1 in the years and in the principal amounts set forth on the cover of this Official Statement. Interest will be payable on each January 1 and July 1, commencing July 1, 2009 (each an "Interest Payment Date"). Principal of, premium, if any, and interest on the 2008 Bonds will be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

The 2008 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2008 Bonds. Individual purchases of the 2008 Bonds will be made in book-entry form only (the

“Book-Entry System”), in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the 2008 Bonds. Principal of and interest on the 2008 Bonds will be paid by the Paying Agent for the 2008 Bonds to DTC, which will in turn remit such principal and interest to its Participants (as hereinafter defined), for subsequent distribution to the Beneficial Owners (as hereinafter defined) of the 2008 Bonds, as described herein. See “BOOK-ENTRY SYSTEM,” below.

If the Book-Entry System is discontinued for the 2008 Bonds, thereafter (i) principal of the 2008 Bonds will be payable upon presentation and surrender of the 2008 Bonds at the principal office of the Department of Budget and Finance of the State, as Paying Agent for the 2008 Bonds (together with any successor, the “Paying Agent”); and (ii) interest on each 2008 Bond will be paid on each Interest Payment Date by check mailed by the Paying Agent to the owner in whose name the 2008 Bond is registered upon the books of registry to be kept and maintained by the Department of Budget and Finance of the State, as registrar for the 2008 Bonds (the “Registrar”), as of the close of business on the 15th day of the calendar month (whether or not a business day) next preceding each Interest Payment Date at such owner’s address as shown on the Bond Register.

The Department, the Registrar, and the Paying Agent, may deem and treat the person in whose name any 2008 Bond is registered upon the Bond Register (an “Owner” or “Holder”) as the absolute owner of such Bond for all purposes of the Certificate, including receiving payment of the principal of and interest due on the 2008 Bonds. So long as the 2008 Bonds are in the Book-Entry System, the registered owner of the 2008 Bonds in the Bond Register will be Cede & Co., and all such payments will be made to Cede & Co., as registered Owner.

#### **Authority for Issuance**

Article VII, Section 12 of the State Constitution and Part III, Chapter 39, Hawaii Revised Statutes (“HRS”), as amended (collectively the “General Revenue Bond Law”), permit the issuance of revenue bonds of the State payable from and secured by the Pledged Funds upon the approval of a majority of the members of each house of the Legislature and pursuant to a certificate of the Director of the Department (the “Director”), which becomes effective upon filing with the Director of Finance. The General Revenue Bond Law does not limit the aggregate principal amount of revenue bonds that may be issued, but does limit the maximum maturity of revenue bonds and also sets forth provisions for the sale, method of execution and other details of all revenue bonds. The Legislature from time to time enacts laws (including the general appropriations acts) authorizing the issuance of revenue bonds (without fixing any particular details), defining the purposes for which the bonds are to be issued and specifying the amount of the proceeds of such bonds which may be applied to such purposes; provided that the Department, with the approval of the Governor, may issue refunding bonds without further authorization of the Legislature. Pursuant to the General Revenue Bond Law, the Director has issued the Certificate, which under State law constitutes the security document pursuant to which all Bonds are issued and secured. The Certificate provides the terms of the Bonds, including principal amounts, interest rates, maturities, redemption provisions and the covenants of the Department.

The 2008 Bonds are being issued pursuant to the Certificate and under the authority of and pursuant to the General Revenue Bond Law and Act 289, Session Laws of Hawaii (“SLH”) 1993, as amended by Act 252, SLH 1994, Act 218, SLH 1995, as amended by Act 287, SLH 1996, Act 328, SLH 1997, as amended by Act 116, SLH 1998 and Act 91, SLH 1999, as amended by Act 281, SLH 2000, Act 259, SLH 2001, as amended by Act 177, SLH 2002, Act 200, SLH 2003, as amended by Act 41, SLH 2004, Act 178, SLH 2005, as amended by Act 160, SLH 2006, and Act 213, SLH 2007, as amended by Act 158, SLH 2008.

## **Redemption**

*Optional Redemption.* The 2008 Bonds maturing on and after January 1, 2020 shall be subject to redemption at the option of the State prior to their stated maturity on and after January 1, 2019 as a whole or in part at any time, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the date fixed for redemption. All remaining maturities of the 2008 Bonds are not subject to redemption prior to their stated maturities.

*Notice of Redemption; Selection of Bonds.* The Department shall cause notice of redemption to be mailed not less than 30 days prior to the redemption date, by registered or certified mail, to each registered holder of a 2008 Bond to be redeemed at its address appearing on the books of registry maintained by the Director of Finance. At the time notice of any optional redemption is given, the Department may also give notice to certain national information services selected by the Department and must also so notify certain bond information repositories. See "CONTINUING DISCLOSURE" and Appendix F.

If less than all of the 2008 Bonds of a series are to be redeemed, the Bonds of such series to be redeemed shall be selected in such order of maturity as may be designated by the Department and by lot within each designated maturity. See "THE 2008 BONDS - Book-Entry System" for a discussion of the notice of redemption to be given to Beneficial Owners (as therein defined for the purposes of such discussion) and the manner of selection of the 2008 Bonds to be redeemed when the Book-Entry System for such Bonds is in effect.

*Effect of Redemption.* If a 2008 Bond is subject by its terms to redemption and has been duly called for redemption in accordance with the Certificate, and if sufficient moneys available for the payment of the redemption price and interest to accrue to the redemption date on such 2008 Bond are held for such purpose by the Director of Finance, such 2008 Bond so called for redemption shall become due and payable, and interest on such Bond shall cease to accrue, on the redemption date designated in such notice.

Upon surrender of any 2008 Bond to be redeemed in part only, the Department will execute and deliver to the holder a new Bond (or Bonds) of the applicable series and maturity representing the unredeemed principal amount of the Bond surrendered.

## **BOOK-ENTRY SYSTEM**

*Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the State and the Underwriter believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter or the State.*

DTC will act as securities depository for the 2008 Bonds. The 2008 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each maturity of the 2008 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

## **DTC and its Participants**

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial

Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions in deposited securities, such as transfers and pledges, through electronic computerized Book-Entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

### **Purchase of Ownership Interests**

Purchases of 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (for the purposes of the discussion under "Book-Entry System," a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2008 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2008 Bonds, except in the event that use of the Book-Entry System for the 2008 Bonds is discontinued.

To facilitate subsequent transfers, all 2008 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 2008 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

### **Notices and Other Communications**

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2008 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

## **Principal and Interest Payments**

Principal of and interest payments on the 2008 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the State or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

## **Discontinuance of Book-Entry System; Replacement Bonds**

DTC may discontinue providing its services as securities depository with respect to the 2008 Bonds at any time by giving reasonable notice to the State or the Department. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Department may decide to discontinue use of the system of Book-Entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

In the event the Book-Entry System is discontinued, the principal of and interest on the 2008 Bonds will be payable as described above under "THE 2008 BONDS - General" and the following provisions will apply.

Each 2008 Bond may be transferred or exchanged upon the books of registry by the registered owner, in person or by its duly authorized attorney, upon surrender of such 2008 Bond for cancellation, accompanied by a written instrument of transfer or exchange satisfactory in form to the Registrar, duly executed by the registered owner or its duly authorized attorney. Upon the surrender of any 2008 Bond for transfer or exchange, the Registrar will deliver in the name of the transferee or owner one or more new 2008 Bonds of the same aggregate principal amount, maturity and interest rate as the surrendered 2008 Bond, in any authorized denomination and in the manner and subject to the conditions set forth in the Certificate.

All such transfers and exchanges will be made without expense to the owner of such Bonds, except that the Registrar shall require the payment by the owner requesting such transfer of any tax or other governmental charges required to be paid with respect to such transfer. No owner may require an exchange or transfer of 2008 Bonds to be made during the 15 days next preceding an Interest Payment Date or during a period beginning at the opening of business 15 days before the mailing of a notice of redemption of Bonds selected for redemption and ending on the close of business on the day of such mailing, or an exchange or transfer to be made of any 2008 Bond or portion thereof which has been selected for redemption.

## **Use of Certain Terms in Other Sections of the Official Statement**

In reviewing this Official Statement it should be understood that while the 2008 Bonds are in the Book-Entry System, references in other Sections of this Official Statement to owners or holders should be read to include the person for whom the Participant acquires an interest in the 2008 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are



to be given to owners or holders by the State or the Paying Agent will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

### **DTC and Book-Entry Information**

Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the State, the Department and the Underwriter believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter, the State or the Department.

None of the State, the Department or the Underwriter will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the 2008 Bonds, (iii) any notice which is permitted or required to be given to owners under the Certificate (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as owner of the 2008 Bonds or (v) any other event or purpose.

### **ESTIMATED SOURCES AND USES OF THE PROCEEDS OF THE 2008 BONDS**

The following table shows the estimated sources and uses of moneys realized by the Department of the proceeds of the 2008 Bonds:

#### **Sources:**

##### **Bond Proceeds:**

Par Amount of 2008 Bonds	\$125,175,000.00
- Net Original Issue Premium	<u>857,615.95</u>
<b>TOTAL SOURCES OF FUNDS</b>	<b><u>\$126,032,615.95</u></b>

#### **Uses:**

Deposit to Project Fund	\$120,000,000.00
Deposit to Debt Service Reserve Subaccount	5,230,781.25
Underwriter's Discount	716,001.00
Other Costs of Issuance	<u>85,833.70</u>
<b>TOTAL USES OF FUNDS</b>	<b><u>\$126,032,615.95</u></b>

## SECURITY FOR THE BONDS

### General

The Bonds, including the 2008 Bonds, are special limited obligations of the State, and will be payable solely from and secured solely by the Pledged Funds. The 2008 Bonds, the Outstanding Bonds and any Additional Senior Bonds that may subsequently be issued under the Certificate are equally and ratably secured by a lien and charge on the Pledged Funds prior and paramount to the lien thereon of any other bonds.

"Pledged Funds" is defined in the Certificate to include the Revenues and the monies held in the Highway Revenue Special Account created in the Certificate and the Highway Bond Proceeds Account in the State Bond Fund. "Revenues" is defined to include the following when deposited in the State Highway Fund: Pledged User Taxes, certain revenues derived from the ownership or operation of, or disposition of properties constituting part of, the State Highway System, and certain investment earnings. "Pledged User Taxes" is defined to include the receipts of the highway fuel license taxes, vehicle registration fees, the vehicle weight taxes, and the rental motor vehicle and tour vehicle surcharge taxes. See "REVENUE SOURCES" below.

The Bonds do not constitute general or moral obligations of the State nor a charge upon the general fund of the State. The full faith and credit of the State are not pledged to the payment of the principal of or interest on the Bonds. The real property and improvements comprising the State Highway System have not been pledged or mortgaged to secure payment of the Bonds.

State law creates a special fund in the Treasury of the State designated as the State Highway Fund. The Certificate creates the Highway Revenue Special Account in the State Highway Fund and requires that the Highway Revenue Special Account be continued as long as any Bonds remain outstanding and provides that all Revenues will be deposited in the State Highway Fund for credit to the Highway Revenue Special Account. The Certificate further provides that amounts deposited in the Highway Revenue Special Account will be used in the order of priority established by the Certificate. Payment of principal of and interest on the Senior Bonds is the first priority and charge against the Highway Revenue Special Account. See "Funds and Accounts and Application of Revenues" below.

In the event of a default, the Holders of at least 25% in principal amount of the Senior Bonds then outstanding and the Holders of at least 25% in principal amount of the Subordinate Bonds then outstanding may declare an immediate acceleration of maturities by written notice to the Department, which notice shall also be filed with the Director of Finance of the State.

Under the doctrine of sovereign immunity, a state of the Union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (including the State) may waive its immunity and consent to a suit against itself. The State has waived by statute its immunity from contractual claims. However, such waiver and consent may subsequently be withdrawn by the State. Such immunity from and constitutional prohibition against suits against a state extends to officers of a state acting in their official capacity.

Therefore, there can be no assurance that in the event the State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against the State or State officials to enforce such payment.

The State has never defaulted in the payment of either principal of or interest on any indebtedness.

### **Pledge of Revenues**

Under the Certificate, the State and the Department pledge and grant a lien on the Pledged Funds to secure the Senior Bonds, which pledge and lien are superior and prior to the pledge of and lien upon the Pledged Funds in respect of the Subordinate Bonds; and pledge and grant a lien on the Pledged Funds to secure the Subordinate Bonds, which pledge and lien are inferior and subordinate to the pledge of and lien upon the Pledged Funds in respect of the Senior Bonds. The Certificate provides that the lien on the Pledged Funds to secure the Bonds is a prior and paramount lien, subject only to the provisions of the Certificate permitting the application of such funds for the purposes and on the terms and conditions thereof.

The Certificate further provides that the moneys in the State Highway Fund shall, until used, applied and disbursed in accordance with the provisions of the Certificate, be held in trust: (1) for the equal benefit and security of the Holders of the Senior Bonds; and (2) subject to the prior and senior rights, benefits and security of the Holders of the Senior Bonds, for the equal benefit and security of the Holders of the Subordinate Bonds. Subject to the provisions of the Certificate concerning application of amounts on deposit in the subaccount relating to the Senior Bonds, all Senior Bonds have a prior and paramount lien on the Revenues paid into the Highway Revenue Special Account for credit to such subaccount and the investments in which such Revenues may be invested, over and ahead of all Subordinate Bonds and all bonds, notes or other evidences of indebtedness which may subsequently be issued. Subject to the prior and paramount lien provided in respect of the Senior Bonds and further subject to the provisions of the Certificate concerning application of amounts on deposit in the subaccount relating to the Subordinate Bonds, all Subordinate Bonds have a prior and paramount lien on the Revenues paid into the Highway Revenue Special Account for credit to such subaccount and the investments in which such Revenues may be invested, over and ahead of all bonds, notes or other evidences of indebtedness which may subsequently be issued.

Under the General Revenue Bond Law, the Department is obligated to impose, prescribe and collect rates, rents, fees, or charges for the use and services of, and the facilities and commodities furnished by, the State Highway System which, together with the proceeds of the Pledged User Taxes derived from the State Highway System, are at least sufficient: (1) to make the required payments of principal and interest on all Bonds, including reserves therefor; (2) to pay the costs of operation, maintenance and repair of the State Highway System, including reserves therefor; and (3) to carry out the covenants of the Certificate.

The State has considered but does not presently anticipate imposing any tolls, rates, rentals, fees or charges for the use and services provided by the State Highway System and, as indicated, expects that the principal source of payment of the Bonds will derive from the Pledged User Taxes imposed pursuant to law.

The State Constitution defines a "user tax" as a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking (an "Undertaking"), improvement or system. The specific acts of the Legislature authorizing Highway Revenue Bonds direct that they shall be payable from and secured by the revenues derived from highways and related facilities under the ownership of the State or operated and managed by the Department comprising the State Highway System, and from the highway fuel license taxes, vehicle registration fees, the vehicle weight tax, and the rental motor vehicle and tour vehicle surcharge taxes levied and paid

pursuant to Sections 243-4, 248-8, 249-31, 249-33, and 251-2, HRS, and federal moneys received by the State or any department thereof which are available to pay principal of and interest on indebtedness of the State, and other user taxes, fees or charges currently or hereafter derived from or arising through the ownership, operation, and management of highways and related facilities and the furnishing and supplying of the services thereof. Each of the aforesaid taxes, charges and fees constitutes a "user tax" within the meaning of the State Constitution.

Under the General Revenue Bond Law, the Legislature has covenanted, pledged and obligated the Legislature, whenever the Legislature shall have authorized the issuance of bonds for an Undertaking such as the State Highway System, payable from and secured by the user taxes derived with respect to such Undertaking, or by both revenues and user taxes, or by any combination of both, to impose or continue to impose user taxes with respect to such Undertaking in amounts at least sufficient, together with the revenue of the Undertaking, to make the payments described above. These provisions would not prohibit the Legislature from changing the rate of existing Pledged User Taxes or other user taxes or fees or from deleting some or all of existing Pledged User Taxes or other user taxes or fees and substituting other or different user taxes or fees.

There is no requirement under the Certificate or the General Revenue Bond Law that the Legislature levy and deposit Pledged User Taxes into the State Highway Fund in excess of the amount necessary to make the deposits described in paragraphs FIRST through FIFTH under "Funds and Accounts and Application of Revenues" below.

#### **Highway Senior Debt Service Reserve Subaccount**

In order to provide a reserve for the payment of the principal of and interest on the Senior Bonds, the Certificate creates a Highway Senior Debt Service Reserve Subaccount in the Highway Revenue Special Account. The Certificate requires that moneys on deposit in the Highway Senior Debt Service Reserve Subaccount shall be maintained in an amount at least equal to one-half (1/2) of the maximum Aggregate Bond Service for the Senior Bonds at the time outstanding for any Bond Year (the "Reserve Requirement"), beginning with the Bond Year in which such determination is made. In lieu of the deposit of moneys to the Highway Senior Debt Service Reserve Subaccount, the Certificate allows the Department to credit one or more Support Facilities in an amount equal to the difference between the Reserve Requirement and the aggregate of (1) moneys already deposited in such Subaccount and (2) amounts available to be drawn under any Support Facility already credited to such Subaccount. See "Highway Senior Debt Service Reserve Subaccount" and definitions of Aggregate Bond Service, Bond Year and Support Facility in Appendix A - "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE."

At the time of the delivery of the 2008 Bonds, the Reserve Requirement will be satisfied by depositing to the Highway Senior Debt Service Reserve Subaccount a portion of the proceeds from the sale of the Bonds.

#### **Funds and Accounts and Application of Revenues**

The Certificate creates the Highway Revenue Special Account, comprised of the subaccounts listed below, within the State Highway Fund and provides that, so long as any Bonds are Outstanding: (1) the State Highway Fund and the Highway Revenue Special Account shall both be continued; and (2) all Revenues deposited in the State Highway Fund shall be credited to the Highway Revenue Special Account. Revenues from specified sources are deposited into the State Highway Fund. See "REVENUE SOURCES" below. Moneys that are paid into and are on deposit in the State Highway Fund constitute

the Revenues that are pledged to the payment of the Bonds. Revenues credited or to be credited to the Highway Revenue Special Account are required to be applied and used in the following order of priority:

FIRST: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (a) Highway Senior Interest Subaccount;
- (b) Highway Senior Principal Subaccount; and
- (c) Highway Senior Debt Service Reserve Subaccount;

SECOND: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (a) Highway Subordinate Interest Subaccount;
- (b) Highway Subordinate Principal Subaccount; and
- (c) Highway Subordinate Debt Service Reserve Subaccount;

THIRD: For payment of operation and maintenance expenses of the State Highway System;

FOURTH: For payment of the costs of acquisition, construction, addition, expansion, improvement, renewal, replacement, reconstruction, engineering, investigation and planning for the State Highway System;

FIFTH: To reimburse the general fund of the State for reimbursable general obligation bonds of the State;

SIXTH: All or any portion of available moneys credited to the Highway Revenue Special Account, after satisfying the requirements of priority items FIRST through FIFTH above, determined in conformance with law by the Director of Transportation to be in excess of 135% of the requirements for the ensuing 12 months for the Highway Revenue Special Account, or such other percentage as may be authorized by law, may be transferred from the Highway Revenue Special Account as permitted by and in accordance with State law; and

SEVENTH: To provide funds for other special reserve funds and other special funds as may be created by law.

#### **Additional Bonds and Refunding Bonds**

The Certificate permits the issuance of Additional Bonds payable from and secured by Pledged Funds on a parity with the 2008 Bonds, the Outstanding Bonds and other Senior Bonds, or the issuance of Additional Bonds which are Subordinate Bonds, for the purpose of paying or reimbursing the cost of acquisition or construction of properties to constitute part of the State Highway System or the making of additions to, expansions of, improvements of, renewals of or reconstructions of the State Highway System. Additional Bonds which are Senior Bonds must be fixed rate bonds. Additional Bonds which are Subordinate Bonds may be fixed rate bonds or variable rate bonds. The conditions for issuance of Additional Bonds include, among other things, that the Director certify that:

(1) no default in the payment of any Bond has occurred and is continuing; no deficiency exists in the State Highway Fund or the Highway Revenue Special Account; and there does not exist any Event of Default under the Certificate or a condition which upon the passage of time would constitute such an Event of Default;

(2) upon delivery of such Bonds, there shall be credited to the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount and the Highway Subordinate Debt Service Reserve Subaccount an amount equal to, in each case, the Reserve Requirement; provided that such requirement may be satisfied by a deposit of proceeds of such Bonds or a Support Facility; and

(3) in the case of Additional Bonds, the Revenues for any twelve consecutive calendar months out of the last eighteen consecutive calendar months immediately preceding the date of issuance of such Bonds shall be at least equal to: (a) in the case of Senior Bonds proposed to be issued, two times maximum Aggregate Bond Service for any future Fiscal Year on all Senior Bonds to be Outstanding after the issuance of such Additional Senior Bonds; and (b) in the case of Subordinate Bonds proposed to be issued, 1.30 times maximum Aggregate Bond Service for any future Fiscal Year on all Bonds to be Outstanding after the issuance of such Additional Subordinate Bonds.

The Certificate permits the issuance of Refunding Bonds payable from and secured by Pledged Funds on a parity with the 2008 Bonds and other Senior Bonds, or Refunding Bonds which are Subordinate Bonds, for the purpose of refunding any then outstanding Bonds, so long as the State has satisfied the requirement set forth in the first and second subparagraphs described above and without satisfying any financial tests. See Appendix A "SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE - Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds."

The Certificate permits the issuance of other bonds or obligations payable from the Revenues subordinate and inferior to the payment of the Bonds from the Revenues.

## **REVENUE SOURCES**

### **State Highway Fund**

The State imposes taxes, fees and charges relating to the operation and use of motor vehicles on the public highways of the State. These funds are deposited into the State Highway Fund established under Section 248-8, HRS. Moneys deposited in the State Highway Fund are used for acquisition, planning, design, construction, operation, repair and maintenance of the State Highway System.

The current taxes, fees and charges deposited to the State Highway Fund consist of: (1) the highway fuel license taxes; (2) vehicle registration fees; (3) the vehicle weight tax; and (4) the rental motor vehicle and tour vehicle surcharge taxes. Together, these taxes, fees and charges accounted for most of the receipts of the State Highway Fund in the Fiscal Year ended June 30, 2008. See "Historical Revenues" below. Other sources of Revenues include interest earnings on moneys previously credited to the State Highway Fund, vehicle weight tax penalties, certain rental income from State Highway System properties, passenger motor vehicle inspection charges, overweight permits, sales of surplus lands, commercial license fees and other miscellaneous Revenues. There are no toll roads or bridges in the State. The primary sources of Revenues are further described below.

### **Sources of Revenues and Pledged User Taxes**

The following is a summary of the sources of Revenues that are deposited to the State Highway Fund. This summary does not purport to be a complete description of each of these Revenue sources and accordingly is qualified by reference to the Hawaii Revised Statutes regarding sources of Revenues. The Legislature has altered and may in the future alter the statutes governing these Revenue sources, the rates of the Pledged User Taxes and their allocation.

*Highway Fuel License Taxes.* Highway fuel license taxes consist of license taxes on fuel sold to motor vehicle operators pursuant to Chapter 243, HRS. The distributor of motor vehicle fuel pays the fuel license tax for liquid fuel produced or imported by the distributor to be sold or used by the distributor. Highway fuel license taxes are assessed at a rate of \$0.17 per gallon of gasoline and diesel oil (highway use), \$0.52 per gallon of liquid petroleum gas (highway use), and \$0.02 per gallon of gasoline, diesel oil and liquid petroleum gas (non highway use). The highway fuel license taxes are collected by the Department of Taxation, which then transfers the receipts to the State Highway Fund. The counties have a similar tax that is not included in the State's fuel license tax rate, as described in Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION." Receipts of aviation fuel taxes and taxes collected with respect to liquid fuel sold for use in small boats are transferred to the Airport Revenue Fund and the Boating Special Fund, respectively, and not to the State Highway Fund.

*Vehicle Registration Fees.* All vehicles, including motor vehicles, must be registered annually with one of the four counties of the State. The vehicle owner must pay a State registration fee of \$25 for each vehicle, pursuant to Section 249-31, HRS. From each annual motor vehicle registration fee, \$20 is deposited into the State Highway Fund and \$5 into the emergency medical services special fund. The four counties each collect the vehicle registration fee along with their respective county registration fees and transfer the State's vehicle registration fee to the State Highway Fund. (See Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION.")

*Vehicle Weight Taxes.* All vehicles, including motor vehicles, are assessed an annual State vehicle weight tax pursuant to Section 249-33, HRS. The tax rate is \$0.0075 per pound for vehicles less than 4,000 pounds; \$0.01 per pound for vehicles between 4,001 and 7,000 pounds; \$0.0125 per pound for vehicles between 7,001 and 10,000 pounds; and \$150 per vehicle for vehicles over 10,000 pounds. The four counties each collect the vehicle weight tax along with their respective county vehicle taxes and transfer the State's vehicle weight tax to the State Highway Fund. (See Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION.")

*Rental Motor Vehicle and Tour Vehicle Surcharge Taxes.* Chapter 251, HRS, imposes a surcharge tax on all rental motor vehicles and tour vehicles. The rental motor vehicle surcharge tax is imposed on the owner of the rental company when a rental motor vehicle is rented or leased. Pursuant to Act 226, SLH 2008, the surcharge tax is \$3 per day or any portion of the day, effective through August 31, 2011.

The tour vehicle surcharge tax is imposed on the tour vehicle operator. The surcharge tax is \$15 per month for each tour vehicle with eight to twenty-five passenger seats that is used or partially used during the month. The surcharge tax is \$65 per month for each tour vehicle with more than twenty-five passenger seats that is used or partially used during the month.

All rental and tour companies must register with the State. The registration fee is a one-time \$20 fee.

*Interest Earnings.* Interest income is derived from the investment of moneys on deposit in the State Highway Fund.

## Historical Revenues

The following table sets forth the sources of Revenues which were deposited into the State Highway Fund for each of the last ten fiscal years ended June 30, 2008.

### Sources of Revenue Deposited in the State Highway Fund (in thousands of \$)

Fiscal Year	Fuel Taxes	Pledged User Taxes					Total Revenues
		Registration Fees	Weight Taxes	Rental/Tour Vehicle Surcharge	Interest	Misc. **	
1999	\$67,209	\$16,749	\$22,434	\$23,591	\$10,535	\$3,885	\$144,403
2000	68,088	17,216	24,425	34,587	12,314	5,662	162,292
2001	71,931	17,616	25,345	38,633	13,616	5,616	172,757
2002	73,046	17,461	25,444	36,054	11,453	25,769	189,227
2003	75,506	19,037	28,184	39,472	11,952	10,820	184,971
2004	79,607	19,174	27,393	41,414	8,569	9,684	185,841
2005	80,913	20,238	30,828	43,950	8,781	5,728	190,438
2006	82,853	20,766	30,740	50,582	14,166	5,180	204,287
2007	85,618	20,765	33,309	46,989	16,204	8,104	210,989
2008*	87,885	21,033	33,549	49,196	14,316	5,876	211,855

\* Unaudited.

\*\*Miscellaneous Revenues include vehicle weight tax penalties, periodic motor vehicle inspection charges, and rents from State Highway System properties, commercial license fees, and other miscellaneous Revenues. For 2002, the Department of Transportation received \$22,506,672 for a gasoline litigation settlement of which \$22,000,000 was transferred to the State general fund. For 2003, \$2,500,000 was received for the sale of certain property.

Source: Department of Transportation.

The rate of taxation on fuel and the registration fee and taxes on motor vehicles changed and increased significantly between 1975 and 2007. Highway fuel license taxes increased from \$0.085 per gallon of gasoline and diesel oil and \$0.060 per gallon of liquid petroleum gas in 1975, to \$0.110 per gallon of gasoline and diesel oil and \$0.080 per gallon of liquid petroleum gas in 1985, to \$0.160 per gallon of gasoline and diesel oil and \$0.110 per gallon of liquid petroleum gas in 1991, to the present rate of \$0.170 per gallon of gasoline and diesel oil on July 1, 2007. The liquid petroleum gas was adjusted to \$0.053 per gallon in 2002 to the present rate of \$0.052 per gallon of liquid petroleum gas on July 1, 2007.

The State vehicle registration fee increased from \$1 per vehicle in 1979 to \$25 per vehicle in 2004. Vehicle weight taxes increased from a minimum rate of \$0.0045 per pound to \$0.0075 per pound and a maximum charge of \$36 per vehicle to \$150 per vehicle between 1991 and 2002.

See "DEBT SERVICE COVERAGE" for a discussion of projected Revenues.

## THE DEPARTMENT OF TRANSPORTATION

### Department Organization

The Department is one of 18 principal executive departments of the State. Chapter 26, HRS, empowers the Department to establish, maintain and operate the transportation facilities of the State, including highways, airports, harbors and such other transportation facilities. The Department's activities are carried out through three primary operating divisions: Airports, Harbors and Highways. The



Department's Airports Division has general responsibility to construct, operate and maintain the Airports system. The Harbors Division has general responsibility to construct, operate and maintain the Harbors system.

Through the Highways Division (the "Highways Division"), the Department has general supervision of the management and maintenance of the State Highway System and the location, design and construction of new highways and facilities. The Highways Division provides supervision to assure completion of State highway contracts in accordance with plans and specifications.

The Department also has administrative offices which are responsible for Department-wide administrative functions and multi-modal statewide transportation planning. See Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION" for additional information regarding the Department.

### **Department Management**

The Department is headed by the Director, a single executive appointed by the Governor and confirmed by the State Senate. The Governor also appoints, without State Senate confirmation, four Deputy Directors of Transportation. The Director and Deputy Directors of Transportation serve four-year terms coterminous with the Governor's term.

Chapter 26, HRS, establishes the Commission on Transportation which sits in an advisory capacity to the Director on matters within the jurisdiction of the Department. The Commission on Transportation consists of at least one member from each of the four counties of the State.

The Highways Division is managed by the Highways Division Administrator. Each of the major islands is managed by a district manager with the exception of Maui District which includes the islands of Maui, Molokai and Lanai. The Staff Services Office, headed by the Administrative Services Officer, is responsible for personnel, budget, procurement, financial management and method, standards and evaluation functions of the Highways Division. Other major functional operations within the Highways Division include Landscape Services Office, Motor Vehicle Safety Office, Planning Branch, Design Branch, Materials Testing and Research Branch, Construction and Maintenance Branch, Traffic Branch and Rights of Way Branch.

### **Management Personnel**

The following are the senior executives of the Department responsible for the management of the State Highway System:

**Brennon Morioka, Ph.D., P.E., Director**, was appointed in December 2007. Prior to this position, Dr. Morioka served as the Deputy Director of the Highways Division from January 2005. His previous professional experience included serving as a senior geotechnical engineer in the Honolulu Office of URS Corporation that involved design and report writing for trenchless technologies, solid waste landfills, landslide mitigation, and other work for geotechnical foundation and infrastructure projects. He was also an engineer with Harding Lawson Associates and Metcalf & Eddy, Pacific. Dr. Morioka earned his bachelor's and master's degrees in civil engineering from the University of California at Berkeley and a doctorate degree in civil engineering with a specialty in geotechnical engineering from the University of Hawaii at Manoa. He was named Hawaii State Young Engineer of the Year in 2000 and represented the United States as one of five delegates to the First International Youth Geotechnical Engineering Conference the same year for his research at the University of Hawaii.

**Francis Paul Keeno, First Deputy Director**, was appointed into this position on June 6, 2006. Previously, he was the Special Assistant to the Director of the Department of Human Resources Development. The Department of Human Resources Development is the centralized personnel department for the State of Hawaii. Mr. Keeno was the Special Assistant there from 2003 through 2006. Prior to that, Mr. Keeno was a deputy attorney general for the Department of the Attorney General, where he specialized in employment and labor law. Mr. Keeno was a deputy attorney general for almost 25 years. As the First Deputy Director for the Department of Transportation, Mr. Keeno is responsible for the Support Services Division, which consists of the Personnel Office, the Business Management Office, the Contracts Office, the PPB Management and Analytical Office, and the Computer Systems and Services Office. In addition, Mr. Keeno is responsible for the Office of Special Compliance Programs, the Office of Civil Rights, and the Statewide Transportation Planning Office. Mr. Keeno graduated in 1975 from the University of Hawaii at Manoa with a Bachelor's degree in Business Administration; and in 1978, he graduated from the University of Santa Clara Law School with a Juris Doctorate degree. Mr. Keeno is currently licensed to practice law in the State of Hawaii.

**Jiro A. Sumada, Deputy Director, Highways Division**, was appointed into this position on August 27, 2008. In his current position, Mr. Sumada is responsible to assist the Director of the State Department of Transportation (DOT) in overseeing the Highways Division for the DOT. Mr. Sumada served two different time periods as the Deputy Director of Public Works on the Big Island of Hawaii, totaling nine years of service to the County of Hawaii. The Public Works Office is responsible for the operation and maintenance of County roads and highways, as well as public and private building construction permitting and inspections. Over a combined period of 11 years, Mr. Sumada also worked in the private sector as a project manager of Project Managers Hawaii; where he was responsible for design coordination for CIP projects for the Kahului Airport on the island of Maui; as a construction engineer for Willocks Construction Corporation; and as a land manager for W.H. Shipman, Limited; where he oversaw the leasing of agricultural land to local farmers, and assisted in both securing change of zone approvals, and in the sales negotiations of various commercial developments. Upon completion of his undergraduate degree, Mr. Sumada served nine years in the U.S. Air Force as a staff engineer for a base-wide facility and infrastructure maintenance unit at Yokota Air Base in Japan, and also as a program engineer for the Pacific Air Forces Headquarters in Honolulu Hawaii. Mr. Sumada graduated from Hilo High School on the Big Island of Hawaii. He earned a Civil Engineering degree from the U.S. Air Force Academy and a Masters in Business Administration from the University of Hawaii.

**Glenn M. Yasui, Highways Division Administrator**, assumed the position of Administrator on June 1, 2001. He is responsible for the operations, maintenance and management of the State Highway System and the planning, design and construction of new state highways and ancillary facilities. Prior to assuming this position, he served as the Senior Transportation Engineer with the Federal Highway Administration, Hawaii Division. Mr. Yasui has over 40 years of highway engineering and administrative experience. From 1964 to 2001, he worked for the Federal Highway Administration in progressive positions of responsibility including Highway Engineer, Assistant Area Engineer, Area Engineer, Urban Transportation Engineer and Senior Transportation Engineer/Territorial Representative. Mr. Yasui graduated from the University of Hawaii with a Bachelor of Science in Civil Engineering in 1964 and received a Master of Public Administration from the University of Southern California in 1985. He is a member of the American Society of Civil Engineers and the Institute of Transportation Engineers. Mr. Yasui is a Licensed Professional Engineer (Civil) in Hawaii, California, Guam and the Commonwealth of the Northern Mariana Islands. While with the Federal Highway Administration, Mr. Yasui guided the successful completion of the \$1.4 billion Interstate Route H-3 project and managed the marketing, technology transfer and implementation of the state-of-art Intelligent Transportation System (ITS) projects in Hawaii. He was also responsible for improving the efficiency and effectiveness of the programming, planning, design and construction processes of the Federal-aid highway programs in the

State of Hawaii, the Territory of American Samoa, the Territory of Guam and the Commonwealth of the Northern Mariana Islands.

**Gerald K.L. Dang, Administrative Services Officer**, became the head of the Staff Services Office of the Highways Division in July 1995. He is responsible for project programming, budgeting, fiscal and personnel activities of the Highways Division. Prior to joining the Department, Mr. Dang served as the Administrative Services Officer for the Department of Business, Economic Development and Tourism (1993-1995), and Budget and Accounting Officer for the Department of Accounting and General Services (1990-1993), and Accountant for various state agencies from 1980-1990. Mr. Dang received a bachelor's degree in Business Administration from the University of Hawaii.

## **Employees**

The Highways Division presently has approximately 1,000 employees. Hawaii law grants public employees in Hawaii, except appointed officials and division administrators, the right to organize for the purpose of collective bargaining. Each recognized bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer.

Substantially all of the Highways Division employees are represented by bargaining units. Generally, blue collar workers are represented by United Public Workers, Local 606. Blue collar supervisors, white collar workers and white collar supervisors are represented by Hawaii Government Employees' Association, Local 152, American Federation of State, County and Municipal Employees.

All regular State and county employees, including Highways Division employees, are covered by the Hawaii State Employees Retirement System (the "State Retirement System"). The State Retirement System is a cost-sharing, multiple-employer defined benefit pension plan funded on an actuarial reserve basis. Effective July 1, 2008, a fixed percentage of payroll is contributed (19.7% for Police and Fire and 15.0% for all other employees).

On July 1, 2006, a new defined benefit contributory plan was established for certain current and new employees. It provides portability for shorter-term employees and is expected to improve recruitment for and retention of public sector employees. The State Retirement System's actuary has determined that the new plan is cost neutral, an important factor given the escalating costs of the retirement program.

In addition to pension benefits, beginning with the Fiscal Year ending June 30, 2008, state and local governments are required to account for and report other post-employment benefits ("OPEBs") under Statement No. 45 ("GASB 45") issued by the Governmental Accounting Standards Board. The State of Hawaii Public Employer-Union Health Benefit Trust Fund (the "Trust Fund") provides OPEBs in the form of certain health and life insurance benefits to retired State and county employees, including retired Highways Division employees. Employer contributions to the Trust Fund for these benefits are determined by the Trust Fund based on employees' hiring dates and years of service.

On August 29, 2008, Aon Consulting, the State's independent actuarial advisor, issued a report on the actuarial accrued liabilities and annual OPEB costs to be recognized by the State with respect to Trust Fund OPEBs under GASB 45. The report quantifies the Actuarial Accrued Liabilities of the State as of July 1, 2007, and develops an Annual Required Contribution as the basis for determining the amount that the State will report under GASB 45 for the fiscal year ending June 30, 2008. The report provides costs based on stated actuarial assumptions with no prefunding of the Annual Required Contribution. The report states that the State's Actuarial Accrued Liabilities as of July 1, 2007 is \$7,192.3 million, and

estimates that the corresponding Annual Required Contribution for the fiscal year ending June 30, 2008 would be \$517.8 million. The estimated pay-as-you-go funding amount for such fiscal year is \$200.1. The State expects to continue to fund its OPEB costs on a pay-as-you-go basis for the near term.

## **CAPITAL IMPROVEMENT PROGRAM**

### **General**

In every odd-numbered year, the Department prepares for the Governor's approval a capital improvements program for the next six fiscal years, describing ongoing and proposed State Highway System capital improvement projects which the Department proposes to undertake during that period. After the Governor's review, the succeeding two fiscal years' capital improvement projects for the State Highway System are submitted to the Legislature as a part of the Administration's executive biennium budget. The Legislature reviews the executive biennium budget in detail and authorizes all or a portion of the executive biennium budget by individual capital improvement project. Subsequently, in every even-numbered year, the Department may amend the second year of that executive biennium budget for presentation to the Governor for approval and to the Legislature for supplemental authorization.

Authorization of a capital improvement project by the Legislature as a part of the executive biennium budget includes the appropriation of moneys from a designated source to pay for that project. Since the Legislature only appropriates for a two-year period, appropriations to complete capital improvement projects extending beyond that period must be approved by subsequent Legislatures. An appropriation of bond funds to match federal funds does not lapse.

The Legislature can appropriate funds for the State Highway System capital improvement projects from six sources: bonds (either general obligation bonds, reimbursable general obligation bonds or revenue bonds), federal funds, the State general fund, special funds, other funds (such as AMTRAK funds) and private contributions (such as private development impact fees). The Legislature also authorizes the issuance of bonds to fund the appropriation for which bond funds are designated as the source for payment of a capital improvement project.

The Department prepares a four-year multimodal transportation improvement program for U.S. Department of Transportation review and approval, and includes two illustrative years beyond the four approved years, to exhibit upcoming efforts. This program, called the Statewide Transportation Improvement Program ("STIP"), includes all projects for which the Department will request federal aid during the four-year period, as well as regionally significant projects. See Appendix B - "ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION" for additional information regarding the STIP.

The Program includes many capital improvement projects still in the preliminary stage. As the Program is continuously developed and revised, the individual capital improvement projects included in the Program undergo changes in priority, timing and cost. The current Program for fiscal years 2008 through 2013 provides authorization for completion of previously approved capital improvement projects, for new capital improvement projects, and for certain additional capital improvement projects which have not yet been authorized.

The Program consists of separate capital improvement projects on the six major islands of the State. From the first year of issuance of Highway Revenue Bonds in 1993 through 2008, the Legislature has appropriated a total of \$2.981 billion, excluding lapses, for the planning, design, and acquisition and construction of projects.

## **Plan of Finance**

The Governor and the Legislature have approved the funding sources for all appropriations made in prior fiscal years. Of the \$2.981 billion appropriated from 1993 through the 2008 session, excluding lapses, the Department has been authorized to finance approximately \$1.792 billion with federal funds, approximately \$243.75 million with available State Highway funds, approximately \$3.22 million with the proceeds from general obligation bonds, approximately \$898.27 million with the proceeds from the sale of revenue bonds and approximately \$43.93 million with other funds.

The Department has previously received federal funds for surface transportation projects under the Intermodal Surface Transportation Efficiency Act of 1991 ("ISTEA") and the Transportation Equity Act for the 21<sup>st</sup> Century of 1998 ("TEA-21"). In 2005, the Safe, Accountable, Efficient Transportation Equity Act: a Legacy for Users (SAFETEA-LU) was signed, which authorized federal surface transportation programs for highways, highway safety, and transit for the five-year period from 2005 to 2009. From 2005 to 2008, the Department has received \$180.6 million, \$185.8 million, 177.5 million, and 167.1 million, respectively, under the SAFETEA-LU program, and anticipates receiving \$176.9 million in 2009 under the program. SAFETEA-LU will expire in September, 2009.

Historically the Department financed a major portion of the State's share of the cost of capital improvement projects using reimbursable general obligation bonds. The Department is required to reimburse the State general fund for the payment of the principal of and interest on such bonds. See "DEBT SERVICE COVERAGE -Reimbursable General Obligation Bonds" for additional information.

Beginning in 1993, the State determined to finance the Program by issuing revenue bonds secured by a pledge of the Pledged Funds rather than by issuing reimbursable general obligation bonds. The Department has previously issued \$75 million in such revenue bonds in 1993, \$55 million in 1996, \$95 million in 1998, \$50 million in 2000, \$70 million in 2001, \$45 million in 2003, and \$60 million in 2005. There are currently \$241,164,000 aggregate principal amount of such bonds outstanding.

## **DEBT SERVICE COVERAGE**

### **Projected Revenues**

The Department's current forecast of Revenues assumes that future Revenues will grow at a lower rate than the historical growth. The forecast reflects an upward growth trend, with Revenues increasing at an average annual rate of approximately one percent (1%), exclusive of any fuel tax increase.

The actual Revenues which will be collected and deposited into the State Highway Fund may vary from this projection because of fluctuating economic conditions, changes by the Legislature in the laws governing the Pledged User Taxes and other variables affecting Revenues. Such variances could be material.

**Projected Revenues**  
**Fiscal Years Ending June 30, 2009 through June 30, 2015**  
**(in thousands of \$)**

Pledged User Taxes

<u>Fiscal Year</u>	<u>Fuel Taxes</u>	<u>Registration Fees</u>	<u>Weight Taxes</u>	<u>Rental/Tour Vehicle Surcharge*</u>	<u>Interest</u>	<u>Misc.**</u>	<u>Total Revenues</u>
2009	87,855	21,420	34,435	50,180	14,000	4,811	212,701
2010	88,544	21,688	34,865	51,183	12,500	4,812	213,592
2011	89,208	21,959	35,301	52,207	12,500	4,842	216,017
2012	89,877	22,233	35,743	53,251	12,500	4,873	218,477
2013	90,551	22,511	36,189	54,316	12,500	4,905	220,972
2014	91,231	22,793	36,642	55,403	12,500	4,934	223,503
2015	91,915	23,077	37,100	56,511	12,500	4,967	226,070

\*Reflects \$1 increase in the rental car surcharge extended by Act 226/08, effective through August 31, 2011.

\*\*Miscellaneous Revenues include vehicle weight tax penalties, periodic motor vehicle inspection charges, rents from State Highway System properties, commercial license fees, and other miscellaneous Revenues.

Source: Department of Transportation.

## Debt Service Requirements for the Bonds

The following table sets forth the principal and interest requirements for the 2008 Bonds and the Outstanding Bonds:

Revenue Bond Debt Service					
FY Ending 6/30	Outstanding Bonds Debt Service	2008 Bonds Debt Service			Total Debt Service
		Principal	Interest	Total	
2009	\$28,092,053	\$ -0-	\$ -0-	\$ -0-	\$28,092,052.50
2010	28,030,394	3,600,000	6,860,004.10	10,460,004.10	38,490,397.85
2011	28,091,285	4,000,000	6,459,212.50	10,459,212.50	38,550,497.50
2012	28,014,598	4,160,000	6,299,212.50	10,459,212.50	38,473,810.00
2013	27,950,673	4,325,000	6,132,812.50	10,457,812.50	38,408,485.00
2014	27,924,810	4,545,000	5,916,562.50	10,461,562.50	38,386,372.50
2015	28,125,479	4,770,000	5,689,312.50	10,459,312.50	38,584,791.25
2016	28,105,073	5,010,000	5,450,812.50	10,460,812.50	38,565,885.00
2017	28,087,010	5,260,000	5,200,312.50	10,460,312.50	38,547,322.50
2018	28,022,455	5,535,000	4,924,162.50	10,459,162.50	38,481,617.50
2019	27,995,069	5,825,000	4,633,575.00	10,458,575.00	38,453,643.75
2020	13,432,950	6,115,000	4,342,325.00	10,457,325.00	23,890,275.00
2021	13,416,375	6,420,000	4,036,575.00	10,456,575.00	23,872,950.00
2022	9,382,806	6,760,000	3,699,525.00	10,459,525.00	19,842,331.25
2023	10,103,525	7,080,000	3,378,425.00	10,458,425.00	20,561,950.00
2024	4,570,775	7,495,000	2,962,925.00	10,457,925.00	15,028,700.00
2025	4,572,775	7,910,000	2,550,700.00	10,460,700.00	15,033,475.00
2026	4,570,575	8,345,000	2,115,650.00	10,460,650.00	15,031,225.00
2027	-0-	8,825,000	1,635,812.50	10,460,812.50	10,460,812.50
2028	-0-	9,330,000	1,128,375.00	10,458,375.00	10,458,375.00
2029	-0-	9,865,000	591,900.00	10,456,900.00	10,456,900.00
<b>TOTAL</b>	<b>\$368,488,678</b>	<b>\$125,175,000</b>	<b>\$84,008,191.60</b>	<b>\$209,183,191.60</b>	<b>\$577,671,869.10</b>

Source: Department of Transportation.

## Historic and Projected Debt Service Coverage

The following table sets forth historical and projected debt service coverage for fiscal years ending June 30, 1999 through 2015. Revenues for the fiscal years ending June 30, 1999 through 2008 are based on actual Revenues for such fiscal years; projected Revenues for present and future fiscal years are based on the Department's projections identified in the table entitled "Projected Revenues" under "DEBT SERVICE COVERAGE" herein.

### Historic and Projected Debt Service Coverage<sup>\*</sup> (Revenue Bond Debt Service Only)

<u>Fiscal Year</u>	<u>Pledged Revenues</u>	<u>Outstanding Revenue Bond Debt Service</u>	<u>2008 Bonds Debt Service</u>	<u>Aggregate Revenue Bond Debt Service</u>	<u>Coverage (Revenue Bonds)</u>
1999	\$144,403,000	\$14,408,883	\$ -0-	\$14,408,883	10.02x
2000	162,292,000	14,965,993	-0-	14,965,993	10.84
2001	172,757,000	17,954,646	-0-	17,954,646	9.62
2002	189,227,000	21,452,982	-0-	21,452,982	8.82
2003	184,971,000	23,655,579	-0-	23,655,579	7.82
2004	185,841,000	18,914,976	-0-	18,914,976	9.83
2005	190,438,000	22,937,803	-0-	22,937,803	8.30
2006	204,287,000	24,355,200	-0-	24,355,200	8.39
2007	210,989,000	28,120,383	-0-	28,120,383	7.50
2008	211,855,000	28,127,228	-0-	28,127,228	7.53
2009	212,701,000	28,092,053	-0-	28,092,053	7.57
2010	213,592,000	28,030,394	10,460,004	38,490,398	5.55
2011	216,017,000	28,091,285	10,459,213	38,550,498	5.60
2012	218,477,000	28,014,598	10,459,213	38,473,810	5.68
2013	220,972,000	27,950,673	10,457,813	38,408,485	5.75
2014	223,503,000	27,924,810	10,461,563	38,386,373	5.82
2015	226,070,000	28,125,479	10,459,313	38,584,791	5.86

<sup>\*</sup> Actual for 1999 through 2008 (2008 unaudited); projected for 2009 through 2015.

Source: Department of Transportation.



**Historic and Projected Debt Service Coverage\***  
**(Total Debt Service Supported by Highway Revenue)**

Fiscal Year	Pledged Revenues	Outstanding Revenue Bond Debt Service	2008 Bonds Debt Service	Aggregate Revenue Bond Debt Service	G.O. Debt Service	Total Debt Supported By Highway Revenue	Coverage (Revenue and G.O. Bonds)
1999	\$144,403,000	\$14,408,883	\$ -0-	\$14,408,883	\$29,084,721	\$43,493,604	3.32x
2000	162,292,000	14,965,993	-0-	14,965,993	23,145,778	38,111,771	4.26
2001	172,757,000	17,954,646	-0-	17,954,646	27,273,953	45,228,599	3.82
2002	189,227,000	21,452,982	-0-	21,452,982	24,494,091	45,947,073	4.12
2003	184,971,000	23,655,579	-0-	23,655,579	17,858,196	41,513,775	4.46
2004	185,841,000	18,914,976	-0-	18,914,976	10,987,493	29,902,469	6.21
2005	190,438,000	22,937,803	-0-	22,937,803	10,858,121	33,795,924	5.63
2006	204,287,000	24,355,200	-0-	24,355,200	20,218,205	44,573,405	4.58
2007	210,989,000	28,120,383	-0-	28,120,383	17,686,416	45,806,799	4.61
2008	211,855,000	28,127,228	-0-	28,127,228	17,117,257	45,244,485	4.68
2009	212,701,000	28,092,053	-0-	28,092,053	16,488,939	44,580,992	4.77
2010	213,592,000	28,030,394	10,460,004	38,490,398	10,723,903	49,214,301	4.34
2011	216,017,000	28,091,285	10,459,213	38,550,498	10,438,425	48,988,923	4.41
2012	218,477,000	28,014,598	10,459,213	38,473,810	7,391,413	45,865,223	4.76
2013	220,972,000	27,950,673	10,457,813	38,408,485	4,035,344	42,443,829	5.21
2014	223,503,000	27,924,810	10,461,563	38,386,373	3,208,768	41,595,141	5.37
2015	226,070,000	28,125,479	10,459,313	38,584,791	2,948,666	41,533,457	5.44

\* Actual for 1999 through 2008 (2008 unaudited); projected for 2009 through 2015.

Source: Department of Transportation.

### Reimbursable General Obligation Bonds

As of June 30, 2008, there were outstanding \$52,631,080 reimbursable general obligation bonds issued for the State Highway System. These bonds are general obligation bonds of the State, but since the proceeds of these bonds were used to finance improvements to the State Highway System, the Department is required to reimburse the State general fund for the payment of the principal of and interest on such bonds. Reimbursement currently is made principally from the Pledged User Taxes, and occurs after the payment of the principal of and interest on the Bonds, including reserves therefor, and the costs of operation and maintenance and improvement of the State Highway System.

The following table sets forth the principal and interest requirements for all reimbursable general obligation bonds outstanding as of June 30, 2008. Debt service requirements on the reimbursable general obligation bonds are set forth in the year in which they are scheduled to be paid. There are no current legislative authorizations for additional reimbursable general obligation bond funded State highway projects.

**State Highway System  
Reimbursable General Obligation Bond Debt Service**

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Reimbursable General Obligation Bond Debt Service</u>
2005	\$ 6,465,070	\$4,393,051	\$10,858,121
2006	16,119,899	4,098,306	20,218,205
2007	14,296,149	3,390,267	17,686,416
2008	14,413,816	2,703,441	17,117,257
2009	14,481,840	2,007,099	16,488,939
2010	9,374,688	1,349,215	10,723,903
2011	9,540,848	897,577	10,438,425
2012	6,889,837	501,575	7,391,413
2013	3,837,938	197,406	4,035,344
2014	3,092,966	115,802	3,208,768
2015	2,881,649	67,018	2,948,666
2016	1,555,327	24,801	1,580,128
2017	1,105,886	13,412	1,119,298
2018	19,328	4,136	23,464
2019	20,308	3,170	23,477
2020	21,334	2,154	23,488
2021	22,409	1,088	23,496

*Source: Department of Transportation.*

### LITIGATION

The State is subject to litigation in connection with the day-to-day operation of the State Highway System by the Department. There are no claims or judicial proceedings affecting the State Highway System or the Pledged Funds, except for claims incidental to the operation of the State Highway System. The State is self-insured with respect to tort claims against the Department and the State Highway System. To pay for tort judgments and settlements involving the State Highway System, the Legislature appropriates money from the State Highway Fund after providing for payment of the Bonds and required reserves. There is no litigation now pending or threatened to restrain or to enjoin the issuance and delivery of the 2008 Bonds or the power and authority of the Department or the State to impose, prescribe or collect Pledged User Taxes or in any manner questioning the power and authority of the Department or State to impose, prescribe or collect such Pledged User Taxes or to issue and deliver the 2008 Bonds or affecting the validity of the 2008 Bonds.

### TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the 2008 Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The State has covenanted to comply with all requirements that must be satisfied in order for the interest on the 2008 Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the 2008 Bonds to become

includable in gross income for federal income tax purposes retroactively to the date of issuance of the 2008 Bonds.

Subject to the State's compliance with the above-referenced covenants, under present law, in the opinion of Chapman and Cutler LLP ("Bond Counsel"), interest on the 2008 Bonds is excludable from the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the 2008 Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax-exempt interest, including interest on the 2008 Bonds.

In rendering its opinion, Bond Counsel will rely upon certifications of the State with respect to certain material facts within the State's knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

Ownership of the 2008 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the 2008 Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the 2008 Bonds is the price at which a substantial amount of such maturity of the 2008 Bonds is first sold to the public. The Issue Price of a maturity of the 2008 Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

If the Issue Price of a maturity of the 2008 Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the 2008 Bonds (the "OID Bonds") and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the State complies with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Owners of OID Bonds should consult their own tax

advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of 2008 Bonds who dispose of 2008 Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase 2008 Bonds in the initial public offering, but at a price different from the Issue Price or purchase 2008 Bonds subsequent to the initial public offering should consult their own tax advisors.

If a 2008 Bond is purchased at any time for a price that is less than the 2008 Bond's stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount (the "Revised Issue Price"), the purchaser will be treated as having purchased a 2008 Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a 2008 Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such 2008 Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the 2008 Bonds.

An investor may purchase a 2008 Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the 2008 Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the 2008 Bond. Investors who purchase a 2008 Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the 2008 Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the 2008 Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the 2008 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the 2008 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the 2008 Bonds. If an audit is commenced, under current procedures the Service may treat the State as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the 2008 Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the 2008 Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a

substantially identical form, or to any 2008 Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

### **State Tax Matters**

Bond Counsel is also of the opinion that, under the laws of the State of Hawaii, as presently enacted and construed, interest on the 2008 Bonds is exempt from all taxation imposed by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer and estate taxes and the franchise tax imposed on banks and other financial institutions, pursuant to Chapter 235 of Title 14 of the Hawaii Revised Statutes. Bond Counsel expresses no opinion regarding taxation of interest on the 2008 Bonds under any other provision of Hawaii law. Ownership of the 2008 Bonds may result in other Hawaii tax consequences to certain taxpayers, and Bond Counsel expresses no opinion regarding such collateral tax consequences arising with respect to the 2008 Bonds. Prospective purchasers of the 2008 Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

### **CERTAIN LEGAL MATTERS**

Certain legal matters incident to the authorization, issuance and sale of the 2008 Bonds are subject to the approving legal opinion of Chapman and Cutler LLP, who has been retained by, and acts as, Bond Counsel to the State. Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the 2008 Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that in its capacity as Bond Counsel, Chapman and Cutler LLP has, at the request of the State reviewed the information under the headings "THE 2008 BONDS," "PLAN OF FINANCE," "SECURITY FOR THE BONDS," "CONTINUING DISCLOSURE" and "TAX MATTERS," as well as Appendix A and Appendix F. This review was undertaken solely at the request and for the benefit of the State and did not include any obligation to establish or confirm factual matters set forth herein. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the 2008 Bonds. The form of opinion Bond Counsel proposes to render is set forth in Appendix E hereto. Certain legal matters will be passed upon for the Underwriter by its counsel, McCorriston Miller Mukai MacKinnon LLP.

The Eighth Supplemental Certificate of the Director, providing for the issuance of the 2008 Bonds, will be approved as to form and legality by the Attorney General of the State.

### **RATINGS**

Moody's Investors Service, Standard & Poor's and Fitch have assigned ratings of "Aa3," "AA+" and "AA-" respectively, to the 2008 Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor's Rating Services, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward, suspended or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. The State undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such

downward revision, suspension or withdrawal of such ratings may have an adverse effect on the market price of the 2008 Bonds.

### **UNDERWRITING**

Subject to the terms and conditions of the Underwriting Agreement, the issuer has agreed to sell to Wachovia Bank, National Association's Municipal Group (the "Underwriter"), a division of Wachovia Bank, National Association and a subsidiary of Wachovia Corporation, and the Underwriter has agreed to purchase from the issuer, all of the 2008 Bonds. The Underwriter has agreed to purchase the 2008 Bonds at a price of \$125,316,614.95, being the aggregate principal amount of the Bonds plus the net original issue premium of \$857,615.95, less an underwriting discount of \$716,001.00. The Underwriter will be responsible for the payment of certain costs of issuing the 2008 Bonds. The Underwriting Agreement provides that the Underwriter will purchase all of the 2008 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Underwriting Agreement, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices of the 2008 Bonds may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2008 Bonds to certain dealers (including dealers depositing 2008 Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriter) at prices lower than the public offering prices stated on the cover of this Official Statement.

Wachovia Corporation conducts its investment banking, institutional and retail securities, and capital markets business through its various bank, broker-dealer, and non-bank subsidiaries including Wachovia Bank, National Association's Municipal Group under the trade name of Wachovia Securities. On October 3, 2008 Wachovia Corporation announced that Wells Fargo & Company and Wachovia Corporation signed a definitive agreement to merge in a transaction in which Wells Fargo & Company will acquire Wachovia Corporation in its entirety. On October 9, 2008 Wachovia Corporation issued a joint press release with Wells Fargo & Company confirming that the definitive agreement first announced on October 3, 2008 will proceed as planned.

### **CONTINUING DISCLOSURE**

The Department has executed a Continuing Disclosure Certificate (the "Disclosure Certificate") for the benefit of the Holders and beneficial owners of the 2008 Bonds to provide certain financial information and operating data relating to the Department to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events, if material, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240.15c2-12) (the "Rule"). See Appendix F - "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

A failure by the Department to comply with the Disclosure Certificate will not constitute an event of default under the Certificate or on the 2008 Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2008 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2008 Bonds and their market price. The State has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events. The Department has complied in all material respects with all previous similar undertakings under continuing disclosure certificates.

The obligations of the Department described in the Disclosure Certificate will remain in effect until the 2008 Bonds are no longer Outstanding (within the meaning of the Certificate) or the Rule no

longer applies to the 2008 Bonds. Any provision of the Disclosure Certificate may be amended or waived upon the conditions set forth therein.

The Disclosure Certificate is solely for the benefit of the Holders and beneficial owners from time to time of the 2008 Bonds. The exclusive remedy for any breach of the Disclosure Certificate by the Department is limited to the right of the Holders and beneficial owners to cause to be instituted and maintained proceedings to obtain specific performance by the Department of its obligations under the Disclosure Certificate. Any such proceedings challenging the adequacy of the information provided in accordance with the Disclosure Certificate may be instituted and maintained only by Holders and beneficial owners of not less than 25% in principal amount of the 2008 Bonds then Outstanding.

### FINANCIAL STATEMENTS

The audited financial statements of the Highways Division as of and for the fiscal year ended June 30, 2007 are set forth in Appendix D to this Official Statement. These financial statements have been audited by KMH LLP, Honolulu, Hawaii, independent certified public accountants, whose report is set forth in Appendix D.

### MISCELLANEOUS

The references in this Official Statement to Acts of the Legislature and the Certificate (including the supplements thereto) do not purport to be complete and are subject to the detailed provisions thereof to which reference is hereby made. The Acts and other Hawaii statutes may be amended by the Legislature. The Department has provided the information in this Official Statement relating to the Highways Division, and other matters, as indicated.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any such statements will be realized. The agreements of the Department and the State are fully set forth in the Certificate and the General Revenue Bond Law, and the Official Statement is not to be construed as a contract or agreement between the Department or the State and the purchasers or Holders of any of the 2008 Bonds.

DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII



/s/ Brennon T. Morioka  
By: Brennon T. Morioka, Ph.D., P.E.  
Director of Transportation

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

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## APPENDIX A

### SUMMARY OF CERTAIN PROVISIONS OF THE CERTIFICATE

For purposes of this Appendix A, Certificate means the Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds, dated as of August 1, 1993, as heretofore supplemented and as further supplemented by the Eighth Supplemental Certificate. The following is a summary of certain of the provisions of the Certificate. The summary does not purport to be complete or to follow the exact language of the Certificate, and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not otherwise previously defined in this Official Statement or defined below have the meanings set forth in the Certificate. For the complete provisions of the Certificate and the precise wording thereof, reference should be made to the Certificate, copies of which are available upon request at the office of the Department. Unless clearly indicated otherwise, all section references are to the Certificate only.

#### Definitions of Certain Terms [Certificate Section 1.01]

The following are definitions in summary form of certain terms contained in the Certificate and used in this Official Statement.

"Aggregate Bond Service" means, as of any date of calculation and with respect to any period, the sum of the amounts of Bond Service for all Series of Bonds for such period.

"Average Annual Bond Service" of a Series of Bonds means the result obtained by dividing (A) the aggregate Bond Service for such Series for the period from the date of issuance of such Series until the final maturity date of such Series by (B) the number of Bond Years in such period.

"Bond Service" means, as of any date of calculation and with respect to any period for any Series of Bonds, an amount equal to the sum of: (i) the interest accruing during such period on the Bonds of such Series, except to the extent that such interest is to be paid from (y) amounts credited to the Highway Senior Interest Subaccount or the Highway Subordinate Interest Subaccount, (z) any other account set aside exclusively for the payment of interest, and (ii) that portion of the next succeeding Principal Installment for the Bonds of such Series accruing during such period assuming each such Principal Installment were deemed to accrue daily (based on a year of 12 months each of 30 days duration) in equal amounts from the next preceding Principal Installment due date (or, in the event there shall have been no such preceding Principal Installment due date for such Series, then from a date one year preceding the due date of such Principal Installment or from the date of delivery of the Bonds of such Series, whichever is later). Such interest and Principal Installments shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment for the Bonds of such Series on the due date thereof. The Bond Service definition contains additional provisions concerning the calculation of debt service on Variable Rate Bonds and Capital Appreciation Bonds.

"Bond Year" means, with respect to any Series of Bonds, any period of 12 consecutive months terminating on the due date of a Principal Installment for the Bonds of such Series; provided that the initial Bond Year for each Series shall be of such duration as is set forth in the Supplemental Certificate providing for such Series.

"Code" means the Internal Revenue Code of 1986, as from time to time amended, and any successor statute thereto, and any Treasury regulations or proposed regulations thereunder.

“Federal Securities” means any of the following:

(i) any direct and general obligations of, or any obligations fully and unconditionally guaranteed as to the full and timely payment of principal and interest by, the United States of America;

(ii) obligations issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America; Export-Import Bank of the United States (backed by the full faith and credit of USA); Government National Mortgage Association (Ginnie Mae) (backed by the full faith and credit of USA); Public Housing Authority (backed by the full faith and credit of USA); Farm Credit System Financial Assistance Corporation (senior debt rated in highest category by the Rating Agencies); Student Loan Marketing Association (Sallie Mae) (senior debt rated in highest category by the Rating Agencies); Tennessee Valley Authority (senior debt rated in highest category by the Rating Agencies); Inter-American Development Bank (senior debt rated in highest category by the Rating Agencies); World Bank (International Bank for Reconstruction & Development) (senior debt rated in highest category by the Rating Agencies); Federal Farm Credit Banks (Consolidated Systemwide Bonds) (senior debt rated in highest category by the Rating Agencies); Federal Home Loan Banks (consolidated debt of banks and deposits of 8 of the 12 individual banks rated in highest category by the Rating Agencies); Federal Home Loan Mortgage Corp. (senior debt (not subordinated debt) rated in highest category by the Rating Agencies); Federal National Mortgage Association (senior debt (not subordinated debt) rated in highest category by the Rating Agencies); and Resolution Funding Corporation (Refcorp) (rated in highest category by the Rating Agencies);

(iii) any obligations of any state or political subdivision of a state (collectively, “Municipal Bonds”) which Municipal Bonds are either (A) rated “Aaa” by Moody’s and “AAA” by S&P (whether such rating is based upon the credit of the issuer, an insurance policy, a letter of credit or otherwise) or (B) are fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bonds, and which Municipal Bonds are rated “Aaa” by Moody’s and “AAA” by S&P and provided, however, that such Municipal Bonds are accompanied by (a) an opinion of Bond Counsel to the effect that such Municipal Bonds are not subject to redemption prior to the date the proceeds of such Municipal Bonds will be required for the purposes of the investment being made therein and (b) a report of an Independent Public Accountant verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bonds; and

(iv) securities commonly referred to as CATs, TGRs, STRIPS, or other certificates of direct ownership of the principal of, or interest on, direct and general obligations of the United States of America or certificates of direct ownership of the interest on obligations of the Resolution Funding Corporation, which obligations are held by a commercial bank which is a member of the Federal Reserve System in trust on behalf of the holders of the derivative product;

provided, however, that the term Federal Securities shall exclude unit investment trusts or mutual funds which otherwise meet the criteria set forth above in clauses (i) through (iv) unless the trust or fund is in the highest rating category of the Rating Agency.

“Highway Bond Proceeds Account” means the special account created in the State Bond Fund into which shall be credited proceeds of any Bond for the payment of the costs of highway and road projects, and other related facilities and properties constituting a part of the Undertaking.

“Highway Revenue Special Account” means the special account of that name created in the Certificate in the State Highway Fund.

“Highway Senior Debt Service Reserve Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Senior Debt Service Reserve Subaccount.”

“Highway Senior Interest Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Senior Interest Subaccount.”

“Highway Senior Principal Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Senior Principal Subaccount.”

“Highway Subordinate Debt Service Reserve Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Subordinate Debt Service Reserve Subaccount.”

“Highway Subordinate Interest Subaccount” means the separate special subaccount of the Department created pursuant to the Certificate in the Highway Revenue Special Account and designated as the “Highway Subordinate Interest Subaccount.”

“Highway Subordinate Principal Subaccount” means the separate special subaccount of the Department created in the Highway Revenue Special Account and designated as the “Highway Subordinate Principal Subaccount.”

“Operation and Maintenance Expenses” means the expenses of operation, maintenance and repair of the properties constituting the Undertaking, including without limitation, the cost of equipment and general administrative overhead in connection with those properties, but excluding any (i) arbitrage earnings which are required to be paid to the United States Government pursuant to Section 148 of the Code, (ii) depreciation expense, and (iii) surcharges imposed by the State for central services relating to administration of funds of the Department.

“Outstanding”, when used with respect to any Bond, shall have the construction given to such word in Section 11.01 of the Certificate, as described below under “Discharge of Obligations of the State Under the Certificate”. For purposes of the Certificate, in the event any Bonds of a Series are issued and sold at a price such that a portion or all of the interest thereon is intended to be earned by accrual of original issue discount or the compounding of interest, the amount of such Bonds deemed to be Outstanding for the purpose of calculating the principal amount of any such Bonds and the principal amount of Bonds Outstanding in connection with the exercise of any voting right or privilege, the giving of any consent or direction or the taking of any other action that the Holders of the Bonds are entitled to take pursuant to Articles X and XI of the Certificate or otherwise, shall be the accreted value thereof.

“Pledged Funds” means the Revenues and the moneys held in the Highway Revenue Special Account, the Highway Bond Proceeds Account and such other funds and accounts which may be hereafter pledged to the payment of the principal of and interest on the Bonds.

"Pledged User Taxes" means the highway fuel license taxes, the vehicle weight taxes, the vehicle registration fees, the rental motor vehicle surcharge taxes and tour vehicle surcharge taxes, respectively levied and paid pursuant to Sections 243-4, 248-8, 249-33, 249-31, and 251-2, Hawaii Revised Statutes, and other user taxes, fees or charges currently or hereafter derived from or arising through the ownership, operation, and management of the Undertaking and the furnishing and supplying of the services thereof, which are deposited in the State Highway Fund and made available pursuant to State law for the payment of the Bonds.

"Principal Installment" means, as of any date of calculation and with respect to any Series of Bonds, so long as any Bonds thereof are Outstanding: (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in the definition of "Sinking Fund Installment") of any Sinking Fund Installment due on a certain future date for Bonds of such Series which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to such unsatisfied balance of such Sinking Fund Installment, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of such Sinking Fund Installment due on such future date.

"Rating Agency" means Moody's Investors Service and Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. and their respective successors and assigns or, if either (or both) shall for any reason no longer perform the functions of a securities rating agency, such other nationally recognized rating agency designated by the Department; provided, however, that any reference to a Rating Agency (other than in the definition of Federal Securities) shall only be effective while such Rating Agency is providing a rating on the Outstanding Bonds.

"Reimbursable General Obligation Bonds" means general obligation bonds of the State to which the State has pledged its full faith and credit and which are payable from the general fund of the State, the proceeds of which were or are to be used to finance highway and road projects with respect to properties constituting part of the Undertaking, and with respect to which the general fund of the State is to be reimbursed from Revenues, except insofar as the obligation or reimbursement has been or is canceled by the State Legislature.

"Reserve Requirement" means with respect to Senior Bonds or Subordinate Bonds, an amount, as of any date of determination, equal to one-half (1/2) of the maximum Aggregate Bond Service for Senior Bonds or Subordinate Bonds, as the case may be, in any Bond Year, beginning with the Bond Year in which the date of determination occurs and ending with the Bond Year after which no Senior Bonds or Subordinate Bonds, as the case may be, are Outstanding.

"Revenues" means and includes the items set forth below when and to the extent the same are deposited in the State Highway Fund to the credit of the Highway Revenue Special Account: (A) all income, revenues and moneys collected by the State from the ownership or operation of the Undertaking or the supplying and furnishing of the services, facilities and commodities thereof, and without limiting the generality of the foregoing, shall include all income, revenues and moneys derived from rates, rentals, fees, tolls and charges prescribed for the uses and services of, and the facilities and commodities furnished by, the Undertaking; (B) earnings on the investment of moneys held under the Certificate and the proceeds of the sale of any such investments; (C) income, revenues and moneys paid to the State or the Department with respect to properties that constitute part of the Undertaking on the effective date of the Certificate but are sold, leased or otherwise disposed of or transferred pursuant to the provisions of the Certificate so as to no longer constitute part of the Undertaking; (D) the Pledged User Taxes; and (E) any other moneys or funds deposited by the State or the Department into the Highway Revenue Special

Account; provided, however, that the term "Revenues" shall not include: (i) moneys received as proceeds from the sale of Bonds; (ii) condemnation proceeds or insurance proceeds except insurance proceeds received from rental or business interruption insurance; (iii) grants-in-aid or similar payments received from the Federal Government or public agencies if (1) the application of such moneys are restricted to a specific purpose other than payment of principal of and interest on indebtedness of the State, or (2) such grants or payments constitute a reimbursement to the State for expenditures previously made from the State Highway Fund or the Highway Revenue Special Account; (iv) moneys or securities received by the State or the Department as gifts or grants, the use of which is restricted by the donor or grantor; (v) investment income derived from any moneys or securities which may be placed in escrow or trust to defease bonds of the State, including the Bonds, or which may be held in the Highway Bond Proceeds Account; (vi) any arbitrage earnings which are required to be paid to the United States Government pursuant to Section 148(f) of the Code; and (vii) the proceeds of any Support Facility.

"Senior Bond" or "Senior Bonds" means any Bond, some of the Bonds or all of the Bonds issued under and at any time Outstanding pursuant to the Certificate, being the Highway Revenue Bonds, Series 1996, Series 1998, Series 2000, Series 2001, Series 2003, 2005 Series A and B, Series 2008, any Additional Senior Bonds issued pursuant to the Certificate, and any Refunding Senior Bonds issued pursuant to the Certificate.

"Sinking Fund Installment" means, with respect to each Series of Bonds, the amount designated as such in the Supplemental Certificate authorizing such Series of Bonds. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (as the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

"Subordinate Bond" or "Subordinate Bonds" means any Bond, some of the Bonds or all of the Bonds issued under and at any time Outstanding pursuant to the Certificate, being any Additional Subordinate Bonds and any Refunding Subordinate Bonds issued pursuant to the Certificate.

"Supplemental Certificate" or "Certificate supplemental to the Certificate," means a certificate duly issued by the Director of Transportation for any of the purposes of Article IX of the Certificate or otherwise amendatory of or supplemental to the Certificate but only if and to the extent specifically authorized thereunder.

"Support Facility" means any instrument such as a letter of credit, a committed line of credit, an insurance policy, a surety bond or a standby bond purchase agreement, or any combination of the foregoing, issued by a bank or banks, other financial institution or institutions, or any combination of the foregoing, which provides for: (i) with respect to any Series of Bonds, the payment of all or a portion of the purchase price or principal, premium, if any, or interest due or to become due on specified Bonds of such Series, or providing for the purchase of such Bonds or a portion thereof by the issuer of such Support Facility; or (ii) with respect to the Highway Senior Debt Service Reserve Subaccount or the Highway Subordinate Debt Service Reserve Subaccount, the funding, in whole or in part, of the Reserve Requirement.

"Undertaking" means and includes all highways and roads, and other related facilities and properties (real, personal or mixed) now belonging to or controlled by the State and under the administration, jurisdiction, control and management of the Department, and all improvements, betterments or extensions thereto hereafter constructed or acquired, except bikeways, and without limiting the generality of the foregoing, the term "Undertaking" shall include each and every, all and singular, the properties and facilities constructed or acquired from the proceeds of Bonds issued under the Certificate

or constructed or acquired from the proceeds of any other bonds, notes or other evidences of indebtedness payable, or the principal and interest of which is reimbursable, from the State Highway Fund or from a fund maintained therefrom, or constructed or acquired from moneys in the State Highway Fund or in any other fund maintained therefrom.

“Value of Investment Securities” and words of like import means the amortized value thereof, provided, however, that all United States Treasury Obligations - State and Local Government Series shall be valued at par and those obligations which are redeemable or otherwise subject to payment (including purchase) at the option of the owner thereof shall be valued at the price at which such obligations are then redeemable or otherwise subject to payment. The computations made under this definition shall include accrued interest on the Investment Securities paid as a part of the purchase price thereof and not collected. For the purposes of this definition, “amortized value”, when used with respect to a security purchased at par, means the purchase price of such security and when used with respect to a security purchased at a premium above or discount below par means, as of any subsequent date of valuation, the value obtained by dividing the total premium or discount by the number of interest payment dates remaining to maturity on any such security after such purchase and by multiplying the amount so calculated by the number of interest payment dates having passed since the date of purchase and (i) in the case of a security purchased at a premium, by deducting the product thus obtained from the purchase price, and (ii) in the case of a security purchased at a discount, by adding the product thus obtained to the purchase price.

“Variable Rate Bonds” means any Subordinate Bonds issued bearing interest at a rate per annum subject to adjustment from time to time pursuant to the terms thereof, based upon an index, or otherwise calculated in a manner which precludes the actual rate for the entire term of such debt from being ascertainable in advance. For the purposes of this definition, Subordinate Bonds shall not be considered to be Variable Rate Bonds upon the establishment of or conversion of the rate of interest thereon to a fixed interest rate.

#### **Allocation and Application of Revenues [Certificate Section 5.01]**

For so long as any Bonds are Outstanding, (1) the State Highway Fund and the Highway Revenue Special Account shall both be continued and (2) all Revenues that are deposited in the State Highway Fund shall be immediately credited to the Highway Revenue Special Account. The Revenues credited or to be credited to the Highway Revenue Special Account shall be applied, used and disposed of as follows, and in the following order of priority:

FIRST: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (a) Highway Senior Interest Subaccount;
- (b) Highway Senior Principal Subaccount;
- (c) Highway Senior Debt Service Reserve Subaccount;

SECOND: For further credit to the following subaccounts in the following order of priority in the amounts required pursuant to the provisions of the Certificate:

- (d) Highway Subordinate Interest Subaccount;
- (e) Highway Subordinate Principal Subaccount; and
- (f) Highway Subordinate Debt Service Reserve Subaccount;

THIRD: For payment of Operation and Maintenance Expenses;



FOURTH: For payment of the costs of acquisition (including real property and interests therein), construction, addition, expansion, improvement, renewal, replacement, reconstruction, engineering, investigation, and planning for the Undertaking and bikeways, all or any of which in the judgment of the Department are necessary to the performance of its duties or functions;

FIFTH: To reimburse the general fund of the State for Reimbursable General Obligation Bonds;

SIXTH: All or any portion of available moneys credited to the Highway Revenue Special Account, after satisfying the requirements of priority items FIRST through FIFTH above, determined in conformance with Section 248-9, Hawaii Revised Statutes, as amended, or any successor statute thereto, by the Director of Transportation to be in excess of 135% of the requirements for the ensuing 12 months for the Highway Revenue Special Account may be transferred from the Highway Revenue Special Account as permitted by and in accordance with Section 37-53, Hawaii Revised Statutes, as amended, or any successor statute thereto; and

SEVENTH: To provide funds for other special reserve funds and other special funds as may be created by law.

**Highway Senior Interest Subaccount [Certificate Section 5.02]**

The moneys credited to the Highway Senior Interest Subaccount shall be disbursed solely for the purpose of paying interest on the Senior Bonds as the same becomes due. In each month, commencing with the first Business Day of the month which follows the last month for which interest on a Series of Senior Bonds, if any, is provided for from the proceeds of a Series of Senior Bonds, with respect to each Series of Senior Bonds, commencing on such first Business Day and continuing on the first Business Day of each month thereafter so long as any of the Senior Bonds of such Series are Outstanding, the Department shall credit to the Highway Senior Interest Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of each succeeding month thereafter, the aggregate of such amounts credited on the first Business Day of the month preceding an Interest Payment Date will be equal to the installment of interest falling due on the Senior Bonds on such Interest Payment Date or the amount required to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment thereof. In making the credits to the Highway Senior Interest Subaccount required by this paragraph, consideration shall be given to and allowance made for accrued interest received upon the sale of a Series of Senior Bonds, and for interest capitalized from the proceeds of a Series of Senior Bonds (which accrued or capitalized interest shall in each case be deposited in the Highway Revenue Special Account for credit to the Highway Senior Interest Subaccount), and for any other credits otherwise made to said account.

**Highway Senior Principal Subaccount [Certificate Section 5.03]**

In the event of the issuance of any Senior Bonds under the Certificate in the form customarily known as "serial bonds," in order to provide for the payment of principal of such Senior Bonds of such Series, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of such Senior Bonds maturing serially, commencing with the month which is 12 months prior to the first principal payment date of any of such Senior Bonds maturing serially and in each month thereafter so long as any of such Senior Bonds so maturing are Outstanding, there shall be credited to the Highway Senior Principal Subaccount an amount such that, if the same amount were so credited to this account on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which the principal of any of said Senior Bonds maturing serially becomes due and payable, the aggregate of the amounts on credit will on the first Business Day of the month preceding

each such next principal payment date be equal to the principal amount of said Senior Bonds becoming due on such principal payment date.

In the event of the issuance of any Senior Bonds under the Certificate in the form customarily known as "term bonds", for the purpose of retiring such Senior Bonds, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of such term Senior Bonds, commencing with the month which is 12 months immediately prior to the date upon which the first Sinking Fund Installment to provide for the retirement of such term Senior Bonds is due, and in each month thereafter so long as any of such Senior Bonds are Outstanding, there shall be credited to the Highway Senior Principal Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which a Sinking Fund Installment falls due, the aggregate of the amounts so credited will on the first Business Day of the month preceding each such next date upon which a Sinking Fund Installment falls due be sufficient to redeem the term Senior Bonds of each Series in the principal amounts and at the times specified in the Supplemental Certificate authorizing the issuance thereof.

The amounts of moneys credited to the Highway Senior Principal Subaccount for the purpose of providing for the retirement of Senior Bonds issued in the form of term bonds shall be applied by the Director of Finance, without further authorization or direction, to the redemption of the Senior Bonds of a Series on each date on which a Sinking Fund Installment for said Series of Senior Bonds is due in the respective principal amounts required to be credited on such dates, or, if so directed by the Department, commencing with respect to each Series of Senior Bonds with the second Sinking Fund Installment for each such Series, semi-annually on both such due date and the day six months prior to such due date so that the aggregate amount so applied in each calendar year will equal the respective principal amount required to be credited on such Sinking Fund Installment date. The Director of Finance shall give notice of a such redemptions, in the name and on behalf of the State, in accordance with the provisions of Article III of the Certificate. The Director of Finance may also, without further authorization or direction, apply the moneys credited to the Highway Senior Principal Subaccount for the retirement of term Senior Bonds of a Series to the purchase of said Senior Bonds; provided, however, that no Senior Bonds shall be purchased during the interval between the date on which notice of redemption of said Senior Bonds from Sinking Fund Installments for such Series is given and the date of redemption set forth in such notice, unless the Senior Bonds so purchased are Senior Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Highway Senior Principal Subaccount for such Series, and provided further, that no purchases of Senior Bonds shall be made if such purchase would require the sale at a loss of securities credited to the Highway Senior Principal Subaccount unless the difference between the actual purchase price (including accrued interest and any brokerage or other charge) paid for such Senior Bonds and the then maximum purchase price (plus accrued interest) permitted to be paid therefor, is greater than the loss upon the sale of any such securities. Any purchase of Senior Bonds as described in this paragraph may be made with or without tenders of Senior Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable Redemption Price, plus accrued interest. All Senior Bonds purchased or redeemed as described in this paragraph shall be canceled and not reissued.

If the principal amount of Senior Bonds purchased and retired through application of any Sinking Fund Installment shall exceed the amount of such Sinking Fund Installment, or in the event of the purchase or redemption of Senior Bonds of any Series and maturity for which Sinking Fund Installments have been established from moneys other than Sinking Fund Installments, such excess or the principal amount of Senior Bonds so purchased or redeemed, as the case may be, shall be credited toward future Sinking Fund Installments either (i) in order of their due dates or (ii) in such order as the Department establishes in a Certificate of the Director of Transportation and delivered to the Registrar on or prior to

the forty-fifth day preceding the next Sinking Fund Installment due date established for such Senior Bonds.

**Highway Senior Debt Service Reserve Subaccount** [Certificate Section 5.05]

The Highway Senior Debt Service Reserve Subaccount shall be maintained in an amount equal to the Reserve Requirement and shall be disbursed solely for the purpose of paying principal of and interest on Senior Bonds for the payment of which there shall be insufficient money in the Highway Senior Interest Subaccount or Highway Senior Principal Subaccount. The Reserve Requirement shall be determined at the time of issuance of a Series of Senior Bonds, July 1 of each year, at the time any Variable Rate Senior Bonds of a Series cease to be Variable Rate Senior Bonds, and such other time or times as the Department shall determine and shall be funded upon the issuance of each Series of Senior Bonds.

Subject to the remaining provisions described under this caption, (a) if at any time during a Fiscal Year the moneys on credit to the Highway Senior Debt Service Reserve Subaccount are less than the Reserve Requirement (including any deficiency in a Support Facility used to fund all or a portion of the Reserve Requirement), the amount of the deficiency shall be restored from the first available Pledged Funds; (b) if at the end of any Fiscal Year, the moneys credited to the Highway Senior Debt Service Reserve Subaccount are less than the Reserve Requirement, the Department shall (after making the deposits and credits required by the Certificate) credit an amount to the Highway Senior Debt Service Reserve Subaccount from Pledged Funds credited to the Highway Revenue Special Account so that there shall then be credited to the Highway Senior Debt Service Reserve Subaccount an amount equal to the Reserve Requirement; (c) if the deficiency in the Highway Senior Debt Service Reserve Subaccount is due to the application of moneys credited thereto to pay principal of or interest on a Series of Senior Bonds, then in each month, commencing with the month which follows the month in which such application is made from the Highway Senior Debt Service Reserve Subaccount, the Department shall (after making the deposits and credits as required by the Certificate) credit from the Pledged Funds credited to the Highway Revenue Special Account to the Highway Senior Debt Service Reserve Subaccount an amount which, if the same amount were so credited in each month thereafter until such day as the Department shall determine, which day shall not be more than 60 months from the making of the first of such credits, there shall be credited to such account on such day an amount not less than the Reserve Requirement; and (d) if at any time and for so long as the moneys credited to the Highway Senior Debt Service Reserve Subaccount are at least equal to the Reserve Requirement, no further credits shall be made to the account, and any amounts in excess of the Reserve Requirement may be retained in the Highway Revenue Special Account for use and application as are all other moneys on deposit therein.

When a Series of Senior Bonds is refunded in whole or in part or is otherwise paid so that all of the Senior Bonds of such Series are no longer Outstanding, moneys credited to the Highway Senior Debt Service Reserve Subaccount may be withdrawn from the Highway Revenue Special Account to pay or provide for the payment of such Senior Bonds or refunded Senior Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the Refunding Senior Bonds issued to refund such refunded Senior Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Highway Senior Debt Service Reserve Subaccount an amount equal to the Reserve Requirement.

In lieu of the credit of moneys to the Highway Senior Debt Service Reserve Subaccount, the Department may cause to be so credited a Support Facility in an amount equal to the difference between the Reserve Requirement and the amounts then credited to the Highway Senior Debt Service Reserve Subaccount. In the event a Support Facility is obtained to satisfy a portion of the Reserve Requirement allocable to a Series of Senior Bonds, so long as such Support Facility is in effect, the Owners of such

Series of Senior Bonds shall not be entitled to payment from or a lien on the funds credited to the Highway Revenue Special Account credited to the Highway Senior Debt Service Account to satisfy that portion of the Reserve Requirement allocable to other Series of Senior Bonds, nor shall the Owners of Senior Bonds of such other Series be entitled to any payment from such Support Facility. The Support Facility shall be payable (upon the giving of notice as required thereunder) on any date on which moneys will be required to be applied from the Highway Senior Debt Service Reserve Subaccount to the payment of the principal of or interest on any Senior Bonds of such Series and such withdrawals may not be made from amounts credited to the Highway Senior Debt Service Reserve Subaccount for such Series of Senior Bonds. Prior to the use of a Support Facility pursuant to the provisions of this paragraph, the Department shall receive written confirmation from the Rating Agency that the rating on the Senior Bonds Outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a Support Facility provided pursuant to this paragraph, the Department shall be obligated either (i) to reinstate the maximum limits of such Support Facility or (ii) to credit to the Highway Senior Debt Service Reserve Subaccount, funds in the amount of the disbursement made under such Support Facility, or a combination of such alternatives, as shall provide that the amount credited to the Highway Senior Debt Service Reserve Subaccount allocable to a Series of Senior Bonds equals that portion of the Reserve Requirement allocable to such Series; provided, however, a failure to immediately restore such Reserve Requirement shall not constitute an Event of Default if the Reserve Requirement is restored within the time period permitted by Section 10.01(c) of the Certificate. Notwithstanding the provisions of Section 10.01(c) of the Certificate, the Department shall not permit any Support Facility which has been established in lieu of a deposit into the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the Support Facility.

**Highway Subordinate Interest Subaccount [Certificate Section 5.06]**

Moneys on credit to the Highway Subordinate Interest Subaccount shall be disbursed solely for the purpose of paying interest on the Subordinate Bonds as the same becomes due. In each month, commencing with the first Business Day of the month which follows the last month for which interest on a Series of Subordinate Bonds, if any, is provided for from the proceeds of a Series of Subordinate Bonds, (a) with respect to each Series of Subordinate Bonds (other than Variable Rate Subordinate Bonds which have Interest Payment Dates occurring at intervals of one month or less), commencing on such first Business Day and continuing on the first Business Day of each month thereafter so long as any of the Subordinate Bonds of such Series are Outstanding, the Department shall credit to the Highway Subordinate Interest Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of each succeeding month thereafter, the aggregate of such amounts credited on the first Business Day of the month preceding an Interest Payment Date will be equal to the installment of interest falling due on the Subordinate Bonds on such Interest Payment Date or the amount required to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment thereof, and (b) with respect to Variable Rate Subordinate Bonds which have Interest Payment Dates occurring at intervals of one month or less, on the first Business Day of the month prior to each Interest Payment Date the Department shall credit to the Highway Subordinate Interest Subaccount from amounts credited to the Highway Revenue Special Account the amount required together with other funds available therefor credited to such account, to pay, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of, the interest payable on such Interest Payment Date or Dates on the Outstanding Variable Rate Subordinate Bonds. In making the credits to the Highway Subordinate Interest Subaccount required by this paragraph, consideration shall be given to and allowance made for accrued interest received upon the sale of a Series of Subordinate Bonds, and for interest capitalized from the proceeds of a Series of Subordinate Bonds (which accrued or capitalized interest shall in each case be deposited in the Highway Revenue Special Account for credit to the Highway

Subordinate Interest Subaccount), and for any other credits otherwise made to said account. Variable Rate Subordinate Bonds shall be assumed to bear interest at the assumed interest rate as determined pursuant to the Certificate, and monthly credits made with respect to Variable Rate Subordinate Bonds shall be adjusted to the extent possible to reflect the actual interest rate on Variable Rate Subordinate Bonds in the preceding month so that, as of any Interest Payment Date, the amount available is sufficient to pay the interest then due; provided, however, that any payments to a Support Facility provider as Holder of a Subordinate Bond which are in excess of the stated rate of interest on such Subordinate Bond, whether denominated additional interest, penalty rate, or otherwise, shall not constitute interest for purposes of this paragraph.

#### **Highway Subordinate Principal Subaccount [Certificate Section 5.07]**

In the event of the issuance of any Series of Subordinate Bonds under the Certificate in the form customarily known as "serial bonds", in order to provide for the payment of principal of such Subordinate Bonds of such Series, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of such Subordinate Bonds maturing serially, commencing with the month which is 12 months prior to the first principal payment date of any of such Subordinate Bonds maturing serially and in each month thereafter so long as any of such Subordinate Bonds so maturing are Outstanding, there shall be credited to the Highway Subordinate Principal Subaccount an amount such that, if the same amount were so credited to this account on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which the principal of any of said Subordinate Bonds maturing serially becomes due and payable, the aggregate of the amounts on credit will on the first Business Day of the month preceding each such next principal payment date be equal to the principal amount of said Subordinate Bonds becoming due on such principal payment date.

In the event of the issuance of any Subordinate Bonds under the Certificate in the form customarily known as "term bonds," for the purpose of retiring such Subordinate Bonds, or to reimburse the Support Facility provider for a draw on the Support Facility made to provide funds for the payment of such term Subordinate Bonds, commencing with the month which is 12 months immediately prior to the date upon which the first Sinking Fund Installment to provide for the retirement of such term Subordinate Bonds is due, and in each month thereafter so long as any of such Subordinate Bonds are Outstanding, there shall be credited to the Highway Subordinate Principal Subaccount from amounts credited to the Highway Revenue Special Account an amount such that, if the same amount were so credited on the first Business Day of such first month and each succeeding month thereafter prior to the next date upon which a Sinking Fund Installment falls due, the aggregate of the amounts so credited will on the first Business Day of the month preceding each such next date upon which a Sinking Fund Installment falls due be sufficient to redeem the term Subordinate Bonds of each Series in the principal amounts and at the times specified in the Supplemental Certificate authorizing the issuance thereof.

The amounts of moneys credited to the Highway Subordinate Principal Subaccount for the purpose of providing for the retirement of Subordinate Bonds issued in the form of term bonds shall be applied by the Director of Finance, without further authorization or direction, to the redemption of the Subordinate Bonds of a Series on each date on which a Sinking Fund Installment for said Series of Subordinate Bonds is due in the respective principal amounts required to be credited on such dates, or, if so directed by the Department, commencing with respect to each Series of Subordinate Bonds with the second Sinking Fund Installment for each such Series, semi-annually on both such due date and the day six months prior to such due date so that the aggregate amount so applied in each calendar year will equal the respective principal amount required to be credited on such Sinking Fund Installment dates. The Director of Finance shall give notice of such redemptions, in the name and on behalf of the State, in accordance with the provisions of Article III of the Certificate. The Director of Finance may also, without further authorization or direction, apply the moneys credited to the Highway Subordinate

Principal Subaccount for the retirement of term Subordinate Bonds of a Series to the purchase of said Subordinate Bonds; provided, however, that no Subordinate Bonds shall be purchased during the interval between the date on which notice of redemption of said Subordinate Bonds from Sinking Fund Installments for such Series is given and the date of redemption set forth in such notice, unless the Subordinate Bonds so purchased are Subordinate Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Highway Subordinate Principal Subaccount for such Series, and provided further, that no purchases of Subordinate Bonds shall be made if such purchase would require the sale at a loss of securities credited to the Highway Subordinate Principal Subaccount unless the difference between the actual purchase price (including accrued interest and any brokerage or other charge) paid for such Subordinate Bonds and the then maximum purchase price (plus accrued interest) permitted to be paid therefor, is greater than the loss upon the sale of any such securities. Any purchase of Subordinate Bonds as described in this paragraph may be made with or without tenders of Subordinate Bonds and at either public or private sale, but in any event at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the then applicable Redemption Price, plus accrued interest. All Subordinate Bonds purchased or redeemed as described in this paragraph shall be canceled and not reissued.

If the principal amount of Subordinate Bonds purchased and retired through application of any Sinking Fund Installment shall exceed the amount of such Sinking Fund Installment, or in the event of the purchase or redemption of Subordinate Bonds of any Series and maturity for which Sinking Fund Installments have been established from moneys other than Sinking Fund Installments, such excess or the principal amount of Subordinate Bonds so purchased or redeemed, as the case may be, shall be credited toward future Sinking Fund Installments either (i) in order of their due dates or (ii) in such order as the Department establishes in a Certificate of the Director of Transportation and delivered to the Registrar on or prior to the forty-fifth day preceding the next Sinking Fund Installment due date established for such Subordinate Bonds.

#### **Highway Subordinate Debt Service Reserve Account [Certificate Section 5.09]**

The Highway Subordinate Debt Service Reserve Account shall be maintained in an amount equal to the Reserve Requirement and shall be disbursed solely for the purpose of paying principal of and interest on Subordinate Bonds for the payment of which there shall be insufficient money in the Highway Subordinate Interest Subaccount or Highway Subordinate Principal Subaccount. The Reserve Requirement shall be determined at the time of issuance of a Series of Subordinate Bonds, July 1 of each year, at the time any Variable Rate Subordinate Bonds of a Series cease to be Variable Rate Subordinate Bonds, and such other time or times as the Department shall determine and shall be funded upon the issuance of each Series of Subordinate Bonds.

Subject to the remaining provisions described under this caption, (a) if at any time during a Fiscal Year the moneys on credit to the Highway Subordinate Debt Service Reserve Subaccount are less than the Reserve Requirement (including any deficiency in a Support Facility used to fund all or a portion of the Reserve Requirement), the amount of the deficiency shall be restored from the first available Pledged Funds; (b) if at the end of any Fiscal Year, the moneys credited to the Highway Subordinate Debt Service Reserve Subaccount are less than the Reserve Requirement, the Department shall (after making the deposits and credits to other subaccounts and purposes as required by the Certificate) credit an amount to the Highway Subordinate Debt Service Reserve Subaccount from Pledged Funds credited to the Highway Revenue Special Account so that there shall then be credited to the Highway Subordinate Debt Service Reserve Subaccount an amount equal to the Reserve Requirement; (c) if the deficiency in the Highway Subordinate Debt Service Reserve Subaccount is due to the application of moneys credited thereto to pay principal of or interest on a Series of Subordinate Bonds, then in each month, commencing with the month which follows the month in which such application is made from the Highway Subordinate Debt

Service Reserve Subaccount, the Department shall (after making the deposits and credits to other subaccounts and purposes as required by the Certificate) credit from the Pledged Funds credited to the Highway Revenue Special Account to the Highway Subordinate Debt Service Reserve Subaccount an amount which, if the same amount were so credited in each month thereafter until such day as the Department shall determine, which day shall not be more than 60 months from the making of the first of such credits, there shall be credited to such account on such day an amount not less than the Reserve Requirement; and (d) if at any time and for so long as the moneys credited to the Highway Subordinate Debt Service Reserve Subaccount are at least equal to the Reserve Requirement, no further credits shall be made to the account, and any amounts in excess of the Reserve Requirement may be retained in the Highway Revenue Special Account for use and application as are all other moneys on deposit therein.

When a Series of Subordinate Bonds is refunded in whole or in part or is otherwise paid so that all of the Subordinate Bonds of such Series are no longer Outstanding, moneys credited to the Highway Subordinate Debt Service Reserve Subaccount may be withdrawn from the Highway Revenue Special Account to pay or provide for the payment of such Subordinate Bonds or refunded Subordinate Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the Refunding Subordinate Bonds issued to refund such refunded Subordinate Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Highway Subordinate Debt Service Reserve Subaccount an amount equal to the Reserve Requirement.

In lieu of the credit of moneys to the Highway Subordinate Debt Service Reserve Subaccount, the Department may cause to be so credited a Support Facility in an amount equal to the difference between the Reserve Requirement and the amounts then credited to the Highway Subordinate Debt Service Reserve Subaccount. In the event a Support Facility is obtained to satisfy a portion of the Reserve Requirement allocable to a Series of Subordinate Bonds, so long as such Support Facility is in effect, the Owners of such Series of Subordinate Bonds shall not be entitled to payment from or a lien on the funds credited to the Highway Revenue Special Account credited to the Highway Subordinate Debt Service Account to satisfy that portion of the Reserve Requirement allocable to other Series of Subordinate Bonds, nor shall the Owners of Subordinate Bonds of such other Series be entitled to any payment from such Support Facility. The Support Facility shall be payable (upon the giving of notice as required thereunder) on any date on which moneys will be required to be applied from the Highway Subordinate Debt Service Reserve Subaccount to the payment of the principal of or interest on any Subordinate Bonds of such Series and such withdrawals may not be made from amounts credited to the Highway Subordinate Debt Service Reserve Subaccount for such Series of Subordinate Bonds. Prior to the use of a Support Facility pursuant to the provisions of this paragraph, the Department shall receive written confirmation from the Rating Agency that the rating on the Subordinate Bonds Outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a Support Facility provided pursuant to this paragraph, the Department shall be obligated either (i) to reinstate the maximum limits of such Support Facility or (ii) to credit to the Highway Subordinate Debt Service Reserve Subaccount, funds in the amount of the disbursement made under such Support Facility, or a combination of such alternatives, as shall provide that the amount credited to the Highway Subordinate Debt Service Reserve Subaccount allocable to a Series of Subordinate Bonds equals that portion of the Reserve Requirement allocable to such Series; provided, however, a failure to immediately restore such Reserve Requirement shall not constitute an Event of Default if the Reserve Requirement is restored within the time period described in clause (b) under "Events of Default; Remedies--Events of Default" below. Notwithstanding the provisions of said clause (b), the Department shall not permit any Support Facility which has been established in lieu of a deposit into the Highway Revenue Special Account for credit to the Highway Subordinate Debt Service Reserve Subaccount to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the Support Facility.

#### **Investment of Moneys [Certificate Section 5.10]**

Moneys in the Highway Revenue Special Account credited to the Highway Senior Interest Subaccount, the Highway Senior Principal Subaccount, the Highway Subordinate Interest Subaccount, and the Highway Senior Subordinate Principal Subaccount therein shall be invested by the Director of Finance in Investment Securities which have ratings provided by Moody's and S&P that are not less than the ratings given to the Senior Bonds then Outstanding and which mature in such amounts and at such times so that the principal of and interest and premium, if any, on the Bonds can be paid when due, whether at maturity or upon the redemption thereof. Moneys in the Highway Revenue Special Account credited to the Highway Senior Debt Service Reserve Subaccount and the Highway Subordinate Debt Service Reserve Subaccount therein shall be invested by the Director of Finance in Federal Securities which have ratings provided by Moody's and S&P that are not less than the ratings given to the Senior Bonds then Outstanding and which have maturities or are redeemable at the option of the Holder thereof in not more than 5 years from the date of investment, but in any event by no later than the last or final maturity date of the Senior Bonds or Subordinate Bonds then Outstanding, as the case may be. The Department in the Certificate grants its approval for all investments made by the Director of Finance pursuant to the Certificate, and no further approvals of the Department shall be necessary therefor.

Income derived from investments made pursuant to the foregoing provisions of the Certificate shall be treated as Revenues; expenses of purchase, safekeeping, sale and redemption, and all other expenses attributable to such investments shall be proper expenses of the Undertaking. Investment Securities so purchased shall be considered as being deposited in the custody or control of the Director of Finance by the Department.

All moneys in the Highway Revenue Special Account and the Highway Bond Proceeds Account, the investment of which is not otherwise provided for in the Certificate, may be invested, and the income from such investments disbursed or applied, as may be provided by applicable law.

All securities shall constitute a part of the respective fund or account from which the investment therein was made. For the purposes of making any calculations or computations at any time and from time to time of the amounts in the State Highway Fund, or any fund or account therein, which may be required for the purposes of the Certificate, the Value of Investment Securities shall be determined at the time of any withdrawal therefrom and as of July 1 of each year.

The Department will maintain records to enable it to cause to be made the computations necessary to determine whether a Series of Bonds the interest on which is intended to be excludable from gross income for federal income tax purposes meets the requirements of Section 148 of the Code, including, but not limited to, records showing the dates and amounts of all investments of funds credited to a subaccounts in the Highway Revenue Special Account and the Highway Bond Proceeds Account.

#### **Revenues Held in Trust, Lien of Bondholders [Certificate Section 5.11]**

The moneys in the State Highway Fund shall be, until used, applied and disbursed in accordance with the provisions of the Certificate, held in trust: (i) for the equal benefit and security of the Holders from time to time of the Senior Bonds; and (ii) subject to the prior and senior rights, benefits and security of the Holders from time to time of the Senior Bonds, for the equal benefit and security of the Holders from time to time of the Subordinate Bonds. Subject to the provisions of the Certificate relating to application of moneys, all Senior Bonds shall have a prior and paramount lien on the Revenues paid into the Highway Revenue Special Account for credit to the Highway Senior Interest Subaccount, the Highway Senior Principal Subaccount and the Highway Senior Debt Service Reserve Subaccount therein and the investments in which such Revenues may from time to time be invested, over and ahead of all



Subordinate Bonds and all bonds, notes or other evidences of indebtedness which may subsequently be issued, and over and ahead of any claims, encumbrances or obligations subsequently arising or subsequently incurred, and all the Senior Bonds shall be equally and ratably secured, without priority by reason of series, number, date of execution or of any Supplemental Certificate providing for the issuance thereof, date of Senior Bonds, date of issuance, date of sale, date of execution, date of authentication, or date of delivery, by such lien in accordance with the provisions of the Certificate. Subject to the prior and paramount lien provided in the preceding sentence in respect of the Senior Bonds and further subject to the provisions of the Certificate relating to application of moneys, all Subordinate Bonds shall have a lien on the Revenues paid into the Highway Revenue Special Account for credit to the Highway Subordinate Interest Subaccount, the Highway Subordinate Principal Subaccount and the Highway Subordinate Debt Service Reserve Subaccount therein and the investments in which such Revenues may from time to time be invested, over and ahead of all bonds, notes or other evidences of indebtedness which may subsequently be issued, and over and ahead of any claims, encumbrances or obligations subsequently arising or subsequently incurred, and all the Subordinate Bonds shall be equally and ratably secured, without priority by reason of series, number, date of execution or of any Supplemental Certificate providing for the issuance thereof, date of Subordinate Bonds, date of issuance, date of sale, date of execution, date of authentication, or date of delivery, by such lien in accordance with the provisions of the Certificate. Subject to the provisions of the Certificate relating to application of moneys, no claim, encumbrance or obligation against the Pledged Funds subsequently arising or incurred shall be secured by or entitled to a lien or charge thereon prior to or equal with the payments required by the Certificate to be made from the Pledged Funds to provide for the payment of the Bonds.

**Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds [Certificate Section 4.02]**

The Department at any time and from time to time may authorize the issuance of one or more Series of: (i) additional Senior Bonds ("Additional Senior Bonds") or refunding Senior Bonds ("Refunding Senior Bonds") payable from the Highway Revenue Special Account on a parity with all other Senior Bonds then Outstanding and equally and ratably secured therewith, or (ii) additional Subordinate Bonds ("Additional Subordinate Bonds") or refunding Subordinate Bonds ("Refunding Subordinate Bonds") payable from the Highway Revenue Special Account on a parity with any Additional Subordinate Bonds or Refunding Subordinate Bonds then Outstanding and equally and ratably secured therewith, in each case upon compliance with the following conditions:

1. The issuance of the Additional Bonds or Refunding Bonds shall have been authorized by law and are issued under and pursuant to a Supplemental Certificate or Certificates.
2. The Supplemental Certificate providing for the issuance of such Bonds shall provide that any accrued interest received upon the sale of said Bonds or any interest capitalized from the proceeds of said Bonds shall be paid into the Highway Revenue Special Account for credit to the Highway Senior Interest Subaccount or the Highway Subordinate Interest Subaccount;
3. At the time of the issuance of such Bonds, no default exists in the payment of the principal of and premium, if any, and interest on any Bond; no deficiencies exist in the State Highway Fund or the Highway Revenue Special Account; and there does not exist an "Event of Default" or a condition which upon the passage of time would constitute such an "Event of Default";
4. Upon the delivery of such Bonds, there shall be credited to the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount and the

Highway Subordinate Debt Service Reserve Subaccount an amount equal to, in each case, the Reserve Requirement; provided however, that the Supplemental Certificate providing for the issuance of such Series of Bonds may provide that part of the proceeds thereof shall be paid or a Support Facility may be deposited, into the Highway Revenue Special Account for credit to the Highway Senior Debt Service Reserve Subaccount or the Highway Subordinate Debt Service Reserve Subaccount, as the case may be.

5. In the case of the issuance of Additional Bonds, upon compliance with the additional conditions summarized below.

6. In the case of the issuance of Refunding Bonds, upon compliance with the additional conditions summarized below.

**Additional Conditions for the Issuance of Additional Bonds** [Certificate Section 4.03]

Each of the following conditions, in addition to those set forth above, shall be met upon the issuance of Additional Bonds:

(a) Such Bonds shall be issued only for the purpose of the payment or reimbursement of the cost of the acquisition or construction of properties to constitute part of the Undertaking or the making of additions to, expansions of, improvements of, renewals of, replacements of, or reconstructions of, the Undertaking or of properties which shall constitute part of the Undertaking; and

(b) The Revenues for any 12 consecutive calendar month's period out of the last eighteen (18) consecutive calendar month's period immediately preceding the date of issuance of the Series of Bonds, as derived from the most recent publicly available financial statements of the Department, shall be at least equal to: (i) in the case of Senior Bonds proposed to be issued, two (2) times maximum Aggregate Bond Service for any future Fiscal Year on a Senior Bonds to be Outstanding after the issuance of such Additional Senior Bonds; and (ii) in the case of Subordinate Bonds proposed to be issued, one and thirty-hundredths (1.30) times maximum Aggregate Bond Service for any future Fiscal Year on all Bonds to be Outstanding after the issuance of such Additional Subordinate Bonds.

**Additional Conditions for the Issuance of Refunding Bonds** [Certificate Section 4.04]

The following conditions, in addition to those set forth above under "Conditions Precedent to Issuance of Additional Bonds and Refunding Bonds," shall be met upon the issuance of Refunding Bonds:

(a) Such Refunding Bonds are being issued for the purpose of refunding at their maturity or at any time within one year prior to their maturity, any of the then Outstanding Bonds, for the payment of which sufficient funds are not available, which Bonds to be refunded shall be specified in the Supplemental Certificate providing for the issuance of the Refunding Bonds; and

(b) Refunding Bonds may be issued to refund prior to maturity all or part of the Outstanding Bonds, including therein amounts to pay principal of, and redemption and acquisition premium and interest on the Bonds to be refunded, which Bonds to be refunded shall be specified in the Supplemental Certificate providing for the issuance of the Refunding Bonds.

#### **Variable Rate Bonds [Certificate Section 4.02]**

Nothing in the Certificate shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Department from issuing Variable Rate Bonds; provided, however, that no Variable Rate Bond may be issued as a Senior Bond. The Supplemental Certificate providing for the issuance of such Variable Rate Bonds may provide for, without limitation, the following: Support Facilities or alternative Support Facilities and support agreements in connection therewith; remarketing agreements and the appointment of remarketing agents; the appointment of tender agents to accept mandatory or optional tenders of Variable Rate Bonds; the payment, redetermination and accrual over specified periods of interest; the establishment, use, composition, adjustment and change of interest indices or modes or the establishment and use of alternative interest indices or modes or the establishment of a fixed interest rate or rates; the establishment of special funds and accounts in connection with the issuance of such Variable Rate Bonds; special redemption or purchase provisions for such Variable Rate Bonds and notice provisions in connection with the purchase, redemption, delivery or tender of such Variable Rate Bonds; and any other terms and provisions not in conflict with the Certificate.

#### **Annual Audit [Certificate Section 6.04]**

The Department shall maintain and keep, or cause to be maintained and kept, proper books, records and accounts in which complete and correct entries shall be made of all dealings and transactions relating to the Undertaking. Such accounts shall show the amount of the Revenues and the application of such Revenues to the purposes specified in the Certificate and all financial transactions in connection therewith, including all deposits into and disbursements from the State Highway Fund, the Highway Revenue Special Account and the Highway Bond Proceeds Account.

The Department shall cause its accounts to be audited by an accountant (herein defined and referred to as the "Independent Public Accountant") employed by it, such period of appointment or employment to be from year to year. Such Independent Public Accountant shall be selected with special reference to his general knowledge, skill and experience in auditing books and accounts, and shall be a certified or licensed accountant or firm of certified or licensed accountants who, or each of whom, is in fact independent and not under the domination of the State (including the Department) and who, or each of whom, is not connected with the State (including the Department) as an officer or employee thereof, but who may be regularly retained to make annual or similar audits of any of the books of the State (including the Department). Such audit shall be made annually and shall be completed within 270 days after the close of each Fiscal Year, shall include a detailed statement of the Revenues and the expenditure and application thereof for such year and a detailed balance sheet of the Undertaking as of the close of such year, including therein a statement of the State Highway Fund and the Highway Revenue Special Account and accounts therein, and be accompanied in writing by a certificate of the Independent Public Accountant. Each such audit shall certify as to the correctness of the schedules contained in the audit report. A copy of each such annual audit shall be filed with the Director of Finance and shall be open for public inspection, and shall be mailed to any Holder of the Bonds filing with the Department a request for same. The cost of any such audit shall be an Operation and Maintenance Expense.

#### **Annual Budget [Certificate Section 6.05]**

The Department shall prepare and file with the proper officers of the State at the time and in the manner prescribed by law, an estimated budget of Revenues and Operation and Maintenance Expenses, Bond Service, capital improvements and any other proposed expenditures for the Undertaking for each Fiscal Year, which budgets shall be open to inspection by any Holder of Bonds or other interested party.

### **Amending Certificate Without Consent of Bondholders [Certificate Section 9.01]**

The State, acting by and through the Department or as may otherwise then be provided by law, from time to time and at any time and without the consent or concurrence of the Holder of any Bond, may make and execute a Supplemental Certificate (i) for the purpose of providing for the issuance of Additional Bonds or the issuance of Refunding Bonds, (ii) to make any changes or modifications thereof, or amendments, additions or deletions thereto which may be required to permit the Certificate to be qualified under the Trust Indenture Act of 1939 of the United States of America, and (iii) if the provisions of such Supplemental Certificate shall not materially adversely affect the rights of the Holders of the Bonds then Outstanding, for any one or more of the following purposes:

1. To make any changes or corrections in the Certificate or any supplement thereto as to which it shall have been advised by its counsel that the same are minor clerical or typographical corrections or changes or are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained therein or in any such supplement thereto, or to insert in the Certificate such provisions clarifying matters or questions arising under the Certificate as are necessary or desirable;
2. To add additional covenants and agreements of the State for the purpose of further securing the payment of the Bonds, provided that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements contained in the Certificate as originally issued or as amended with the consent of Bondholders;
3. To surrender any right, power or privilege reserved to or conferred upon the State by the terms of the Certificate or any supplement hereto;
4. To confirm as further assurance any lien, pledge or charge, or the subjection of any additional revenue, property or collateral to any lien, pledge or charge, created or to be created by the provisions of the Certificate or any supplement thereto;
5. To grant to or confer upon the Holders of the Bonds or any Support Facility provider, any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them;
6. To prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the State payable from the Revenues;
7. To include any modifications, amendments or supplements as may be required with respect to any Series of Bonds in order to obtain a favorable rating or ratings from any Rating Agency;
8. To add or modify any provision of the Certificate as a result of enactment of any State or federal law which changes the treatment of the Bonds or interest thereon for tax purposes;
9. To include any modifications, amendments or supplements as may be required with respect to any Series of Bonds in order to permit such Series to be available through a book-entry system maintained by, or to be cleared through, The Depository Trust Company, New York, New York, or other securities depository, clearing corporation, or clearing agency;

10. To make any changes or corrections to the Certificate as are necessary to provide for the issuance of Bonds in a form not contemplated by the express provisions of the Certificate, including without limitation in the form of commercial paper, indebtedness which converts from a variable rate to a fixed rate, indebtedness which initially compounds or accrues interest and then converts to a current interest-bearing instrument, and a Series of Bonds whereby the State pays a particular rate of interest and such interest payment is divided in a manner such that certain Bondholders receive a variable interest rate determined by the market and other Bondholders receive a residual interest rate approximating the difference between the interest payment paid by the State and such variable rate of interest; or

11. To modify, amend or supplement in any other respect any of the provisions of the Certificate, provided that such modifications shall have no adverse affect as to any Bond or Bonds which are then Outstanding.

Except for Supplemental Certificates providing for the issuance of Additional Bonds or Refunding Bonds, the State shall not make and execute any instrument or Certificate supplemental to the Certificate, unless in the opinion of counsel the making and entering into of such instrument or such Supplemental Certificate is permitted by the provisions of the Certificate and the provisions of such instrument or of such Supplemental Certificate are not contrary to or inconsistent with the covenants or agreements of the State contained in the Certificate as originally issued or as amended with the consent of the Bondholders.

#### **Amending Certificate With Consent of Bondholders [Certificate Section 9.02]**

With the consent of the Holders of not less than a majority of the principal amount of the Bonds then Outstanding, the State, acting by and through the Department or as may otherwise then be provided by law, from time to time and at any time, may make and execute an instrument or certificate amending or supplementing the provisions of the Certificate for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Certificate or of any supplement thereto, or modifying or amending the rights and obligations of the Department thereunder, or modifying in any manner the rights of the Holders of the Bonds; provided, however, that, without the specific consent of the Holder of each Bond which would be affected thereby, whether or not such Bond shall then be deemed to be Outstanding thereunder, no such instrument or certificate amending or supplementing the provisions thereof shall: (1) extend the fixed maturity date for the payment of the principal of any Bond, or reduce the principal amount of any Bond, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any Bond may first be called for redemption prior to its fixed maturity date; (2) reduce the aforesaid percentage of Bonds, the Holders of which are required to consent to any such instrument or certificate amending or supplementing the provisions thereof; (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured by the Certificate; (4) authorize the creation of any pledge of the Revenues or any lien or charge thereon prior or superior to or on a parity with the pledge of and lien and charge thereon created in the Certificate for the payment of the Bonds except to the extent provided in the Certificate; or (5) deprive any Holder of the Bonds of the pledge and lien created by the Certificate; and provided further, that if moneys or Federal Securities shall have been deposited in accordance with the provisions of the Certificate for the payment of particular Bonds and such Bonds shall not in fact have been paid, no amendments or supplements to the provisions of Article XI of the Certificate shall be made without the specific consent of the Holder of each Bond which would be affected thereby. A modification or amendment of the provisions of Article V of the Certificate with respect to any of the accounts therein shall not be deemed a change in the terms of payment of the Bonds; provided, however, that no such modification or amendment shall, except upon the consent of the Holders

of all Bonds then Outstanding affected thereby, reduce the amount or amounts required to be deposited in the Highway Revenue Special Account for credit to all accounts therein.

**Events of Default; Remedies** [Certificate Sections 10.01 to 10.05]

Events of Default. The following shall constitute "Events of Default:"

(a) If payment of the interest on, or principal (including any Sinking Fund Installment) or premium (if any) of any Bond, whether at maturity or by proceedings for redemption, by declaration, or otherwise, shall not be made after the same shall become due and payable; or

(b) If the Department shall default in the due and punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in the Certificate or in any Certificate supplemental thereto, on the part of the Department to be performed, and such default shall continue for 90 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Department by the Holders of not less than 20% in principal amount of the Bonds then Outstanding, or any trustee or committee therefor; provided, however, that if such failure shall be such that it cannot be corrected within such 90-day period, it shall not constitute an Event of Default if correction action is instituted within such period and diligently pursued until the failure is corrected; or

(c) If any proceedings shall be instituted, with the consent or acquiescence of the State, for the purpose of effecting a composition between the State and its creditors and if the claim of such creditors is in any circumstance payable from any of the Revenues or any other moneys pledged and charged in the Certificate or in any Certificate supplemental thereto, or for the purpose of adjusting the claims of such creditors, pursuant to any federal or State statute now or hereafter enacted; or

(d) If, under the provision of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Undertaking or any of the buildings and facilities thereof, and such custody or control shall not be terminated within 90 days from the date of assumption of such custody or control; or

(e) If the Department or the State shall for any reason be rendered incapable of fulfilling its obligations under the Certificate.

Declaration of Principal and Interest as Due. Upon the occurrence and continuation of an Event of Default, then and in each and every case the Holders of not less than 25% in principal amount of the Senior Bonds then Outstanding and the Holders of not less than 25% in principal amount of the Subordinate Bonds then Outstanding may, by written notice to the Department filed in the office of the Department and with the Director of Finance, proceed to declare the principal of all Bonds then Outstanding, together with all accrued and unpaid interest thereon and together with all other moneys secured thereby, if not already due, to be due and payable immediately, and upon any such declaration the same shall become and be due and payable immediately, anything in the Certificate, any Supplemental Certificate, or in any of the Bonds contained to the contrary notwithstanding, except to the extent otherwise provided in connection with a Support Facility. This provision is subject, however, to the condition that, if at any time after the principal of the Bonds, together with accrued and unpaid interest thereon shall have been so declared due and payable and before any further action has been taken (other than the making of the above declaration), the principal amount of all Bonds which have matured either according to the maturity date or dates specified therein or otherwise (except as a result of such

declaration) and all arrears of interest upon all Bonds, except interest accrued but not yet due on said Bonds, shall be paid or caused to be paid, and all other Events of Default, if any, which shall have occurred shall have been remedied, cured or secured, then and in every such case the Holders of a majority in principal amount of the Senior Bonds then Outstanding and not less than 25% in principal amount of the Subordinate Bonds then Outstanding, by notice in writing delivered to the Department and the Director of Finance, may waive such default and its consequences and rescind such declaration. No such waiver or rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

*Bondholders' Committee.* Upon the occurrence of an Event of Default and at any time such Event of Default shall be continuing, the Holders of not less than 20% in principal amount of the Senior Bonds then Outstanding and not less than 20% in principal amount of the Subordinate Bonds then Outstanding may call a meeting of the Holders of Bonds for the purpose of electing a Bondholders' Committee. Such meeting shall be called and proceedings thereat shall be conducted as provided for other meetings of Bondholders pursuant to the Certificate. At such meeting the Holders of not less than a majority of the principal amount of the Senior Bonds then Outstanding and not less than a majority of the principal amount of the Subordinate Bonds then Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any notice. A quorum being present at such meeting, the Bondholders present in person or by proxy may, by the votes cast by the Holders of a majority in principal amount of the Senior Bonds and by the Holders of a majority in principal amount of the Subordinate Bonds so present in person or by proxy, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The Bondholders present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondholders' Committee at such Bondholders' meeting shall be elected or appointed, and may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it, and may provide for the termination of the existence of the Bondholders' Committee.

*Suits at Law or Equity and Mandamus.* In case any one or more of the Events of Default shall happen and be continuing, then and in every such case, but subject to the provisions, limitations and conditions contained in the Certificate so far as the remedies provided in the Certificate are concerned, the Holder of any Bond at the time Outstanding shall be entitled, for the equal benefit and protection of all Holders of the Bonds similarly situated to proceed and protect and enforce the rights vested in such Holder by the Certificate by such appropriate judicial proceeding as such Holder shall deem most effectual to protect and enforce any such right, either by suit in equity or by action of law, whether for the specific performance of any covenant or agreement contained in the Certificate, or in aid of the exercise of any power granted in the Certificate, or to enforce any other legal or equitable right vested in the Holders of Bonds by the Certificate or by law.

*Remedies Not Exclusive: Effect of Waiver of Default; Effect of Abandonment of Proceedings or Adverse Determination.* The Holders from time to time of the Bonds shall be entitled to all the remedies and benefits of the Certificate as is and as shall be provided by law, and nothing in the Certificate shall be construed to limit the rights or remedies of any such Holders under any applicable statute that may now exist or be enacted hereafter. The remedies prescribed by the Certificate shall not be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given thereunder, or now or hereafter existing at law or in equity or by statute and may be exercised without exhausting and without regard to any other remedy.

No waiver of any default or breach of duty or contract by any Holder or any Bond shall extend to or affect any subsequent default or breach of duty or contract, or shall impair any rights or remedies

thereon. No delay or omission of any Holder of a Bond to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein. Every substantive right and remedy conferred upon the Holders of the Bonds may be enforced from time to time and as often as may be deemed expedient. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and then discontinued or abandoned, or shall be determined adverse to the Holders of the Bonds, then and in every such case the State and such Holders shall be restored to their former positions and rights and remedies as if no suit, action or proceeding had been brought or taken.

**Discharge of Obligations of the State Under the Certificate** [Certificate Section 11.01]

The obligations of the State, including, without limiting the generality of the foregoing, of the Department, under the Certificate and the liens, pledges, charges, trusts, assignments, covenants and agreements of the State, including the Department, therein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding under the Certificate,

(A) if such Bond shall have been purchased and cancelled by the State or surrendered to the Director of Finance or other Paying Agent, transfer agent or Registrar for cancellation or be subject to cancellation by him or it, or

(B) as to any Bond not theretofore purchased and cancelled, surrendered for cancellation or subject to cancellation, when payment of the principal of and the applicable redemption premium, if any, on such Bond, plus interest on such principal (calculated, in the case of Variable Rate Bonds, at the maximum numerical rate permitted by the terms thereof) to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided in the Certificate, or otherwise) either

(1) shall have been made or caused to be made when due and payable in accordance with the terms thereof, or

(2) shall have been provided by irrevocably depositing with the Director of Finance or other Paying Agent therefor, in trust solely for such payment, either (i) moneys sufficient to make such payment or (ii) Federal Securities maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, or (iii) a combination of both moneys and Federal Securities, and all necessary and proper fees, compensation and expenses of any Paying Agent, transfer agent or Registrar appointed by the State pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of such Paying Agent, transfer agent or Registrar. At such time as a Bond shall be deemed to be no longer Outstanding under the Certificate, as aforesaid, except for the purpose of any such payment from such moneys or Federal Securities, such Bond shall no longer be secured by or entitled to the benefits of the Certificate and shall cease to accrue interest from the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment or by declaration as provided therein, or otherwise).

Notwithstanding the foregoing, with respect to Bonds which by their terms may be redeemed or otherwise prepaid prior to the stated maturities thereof and which the State elects to so redeem or prepay, no deposit under clause (2) of subparagraph (B) above shall constitute such discharge and satisfaction as aforesaid until such Bonds shall have matured or shall have been irrevocably called or designated for



redemption or prepayment and proper notice of such redemption or prepayment shall have been given as provided in the Certificate or irrevocable provision shall have been made for the giving of such notice; provided that nothing in the foregoing shall require or be deemed to require the State to elect to redeem or prepay such Bonds or, in the event the State shall elect to redeem or prepay such Bonds, shall require or be deemed to require the redemption or prepayment as of any particular date or dates.

Any such moneys so deposited with the Director of Finance or other Paying Agents as described above may at the direction of the Department be invested and reinvested in Federal Securities, maturing in the amounts and times as hereinbefore set forth, and all income from all such Federal Securities in the hands of the Director of Finance and other Paying Agents which is not required for the payment of the Bonds and interest and premium, if any, thereon with respect to which such moneys shall have been so deposited, shall, to the extent permitted by law, be deposited in the Highway Revenue Special Account as and when realized and collected for use and application as are other moneys deposited in such Fund.

Notwithstanding the foregoing, the payment of (i) the purchase price of and interest on Variable Rate Bonds tendered for purchase pursuant to the terms thereof and of a remarketing agreement, or similar agreement, or (ii) principal of or interest on any Variable Rate Bonds with a draw, borrowing or payment under a Support Facility shall not be deemed payment of such Variable Rate Bonds pursuant to the Certificate; provided, however, that with respect to (ii) above, a reimbursement or other payment by the State with respect to a draw, borrowing or payment under a Support Facility for the payment of principal, premium, if any, or interest on Variable Rate Bonds when due, shall be deemed to the payment of such Variable Rate Bonds for the purpose of said provision.

All moneys or Federal Securities set aside and held in trust pursuant to the foregoing provisions for the payment of Bonds (including interest and premium thereon, if any) shall be applied to and used solely for the payment of the particular Bonds (including interest and premium thereon, if any) with respect to which such moneys and Federal Securities have been so set aside in trust.

If moneys or Federal Securities have been deposited or set aside with the Director of Finance or other Paying Agent pursuant to the Certificate for the payment of Bonds and such Bonds shall be deemed to have been paid and be no longer Outstanding, but such Bonds shall not have in fact been actually paid in full, no amendment to the provisions of the Certificate relating to the defeasance of Bonds shall be made without the consent of the Holder of each Bond affected thereby and such Bonds shall be considered to be Outstanding for purposes of the Certificate.

The State may at any time surrender to the Director of Finance for cancellation by him any Bonds previously executed and delivered, which the State may have acquired in any manner whatsoever, and such Bonds upon such surrender for cancellation shall be deemed to be paid and no longer Outstanding.

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APPENDIX B

ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES,  
THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION

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## APPENDIX B

### ADDITIONAL INFORMATION RELATING TO REVENUE SOURCES, THE STATE HIGHWAY SYSTEM AND THE DEPARTMENT OF TRANSPORTATION

This Appendix B contains additional information relating to Revenue sources and other factors affecting the Department's ability to raise Revenues, federal aid to Hawaii, the State Highway System and the Department of Transportation.

#### INFORMATION RELATING TO REVENUE SOURCES

**Motor Vehicle Registration.** The following table sets forth the total number of motor vehicle registrations subject to renewal in the State by type of vehicle for each of the last ten calendar years ending December 31, 2007.

##### Motor Vehicle Registration

<u>Calendar Year</u>	<u>Passenger Vehicles</u>	<u>Ambulances &amp; Hearses</u>	<u>Buses</u>	<u>Trucks</u>	<u>Motorcycles &amp; Scooters</u>	<u>Trailers</u>	<u>Total</u>
1998	713,732	61	3,084	159,614	16,936	22,326	915,753
1999	725,142	59	3,028	161,698	17,008	22,539	929,474
2000	754,840	56	2,902	165,783	17,661	23,496	964,738
2001	775,737	58	2,847	169,223	19,286	25,412	992,563
2002	792,482	62	2,814	171,813	20,427	25,996	1,013,594
2003	830,672	47	2,588	175,517	22,019	26,780	1,057,623
2004	867,120	44	2,510	179,592	20,746	28,435	1,098,447
2005	906,799	47	2,472	185,646	24,874	29,565	1,149,403
2006	907,659	46	2,349	191,230	26,024	31,789	1,157,027
2007	911,607	47	2,260	193,650	26,978	32,698	1,167,240

Source: Department of Business, Economic Development and Tourism, Research and Economic Analysis Division, Statistics Branch.  
Department of Transportation Motor Vehicle Safety Office.

**Licensed Drivers.** The following table sets forth the total number of drivers licenses in force in the State for the ten calendar years ending December 31, 2007.

##### Drivers Licenses in Force

<u>Year</u>	<u>Oahu</u>	<u>Hawaii</u>	<u>Maui</u>	<u>Kauai</u>	<u>Total</u>
1998	520,734	98,525	84,980	42,363	746,329
1999	521,671	100,331	87,550	43,141	752,693
2000	529,890	104,058	90,964	44,471	769,383
2001	542,244	106,557	93,595	45,424	787,820
2002	560,222	110,561	97,045	46,840	814,668
2003	572,665	113,760	99,716	48,047	834,188
2004	577,507	116,486	100,916	48,967	843,876
2005	584,492	119,741	102,050	49,880	856,163
2006	590,975	122,087	103,402	50,539	867,003
2007	600,264	125,063	125,063	51,504	901,894

Source: Department of Transportation, Motor Vehicle Safety Office.

**Fuel Consumption.** The following table is a summary of the gallons of motor vehicle fuels imported into and consumed in the State, subject to the motor vehicle fuel tax for the ten fiscal years ending June 30, 2008.

**Motor Vehicle Fuel Consumption  
(In Thousands of Gallons)**

<u>Fiscal Year</u>	<u>Gasoline</u>	<u>Diesel</u>	<u>Liquid Petroleum</u>	<u>Total</u>
1999	392,811	193,094	3,643	589,426
2000	391,114	310,299	3,583	704,996
2001	411,314	210,970	3,643	625,927
2002	416,827	219,694	3,179	639,700
2003	434,595	161,132	3,160*	598,887
2004	459,132	170,318	2,019	631,469
2005	455,846	249,407	5,092	710,345
2006	466,542	211,448	2,557	680,547
2007	483,274	171,918	2,939	658,131
2008	455,390	294,636	2,207	752,223

Source: Liquid Fuel Tax Base & Tax Collections - FY Ending June 30, 2008, State of Hawaii,  
Department of Transportation.

\*Updated by the Department of Taxation.

**FACTORS THAT MAY IMPACT REVENUE SOURCES**

**Federal and County Fuel and Weight Taxes**

Fuel taxes are presently imposed by federal, State and county governments. The retail price of a gallon of gasoline in the City and County of Honolulu presently includes fuel taxes of \$0.519 (\$0.184 federal + \$0.17 state + \$0.165 county) plus the State's 4.5% general excise tax, of which taxes only \$0.17 is the State fuel license tax. The feasibility of imposing additional taxes and fees on fuel and motor vehicles is affected in part by the amount and rate of fuel and other taxes and fees imposed by federal and county governments. These other taxes and fees are not pledged to the payment of the Bonds and are not available for such payment. The following is a summary of the various fuel taxes presently imposed by the federal government and fuel and vehicle taxes presently imposed by county governments:

**Federal Fuel Taxes.** The Internal Revenue Code imposes federal fuel taxes at the rate of \$0.184 per gallon of gasoline and \$0.244 per gallon of diesel fuel.

**State General Excise Tax.** The State's 4.0% general excise tax on goods and services (4.5% in the City and County of Honolulu, effective January 1, 2007) extends to gasoline, diesel fuel and liquid petroleum gas. Since 1991, general excise tax collections on fuel have been paid to the State general fund, not the State Highway Fund.

**County Fuel Taxes.** Each county imposes a tax on gasoline, diesel oil and liquid petroleum gas for highway use. County fuel taxes are collected by the Department of Taxation together with the fuel license taxes and deposited into the respective county highway funds to be expended by each county on county highway improvements. The fuel tax rates for the County of Hawaii are \$0.088 per gallon of gasoline and diesel oil, and \$0.029 per gallon of liquid petroleum gas. The fuel tax rates for the City and County of Honolulu are \$0.165 per gallon of gasoline and diesel oil, and \$0.054 per gallon of liquid

petroleum gas. The fuel tax rates for the County of Maui are \$0.16 per gallon of gasoline and diesel oil, and \$0.043 for liquid petroleum gas. The fuel tax rates for the County of Kauai are \$0.13 per gallon of gasoline and diesel oil, and \$0.043 per gallon of liquid petroleum gas.

**County Vehicle Weight Taxes.** Each county imposes and collects a tax on all vehicles, including motor vehicles, based on weight. Each county collects both State and county vehicle taxes and remits the State vehicle weight tax to the State to be paid into the State Highway Fund.

The county vehicle tax rates for the City and County of Honolulu are \$0.02 per pound for passenger motor vehicles and noncommercial vehicles not exceeding 6,500 pounds, and \$0.025 per pound for commercial vehicles and all other motor vehicles, with a minimum of \$12.00 annually for all motor vehicles and \$1.00 annually for other vehicles.

The tax rates for the County of Maui are \$0.0125 per pound for passenger motor vehicles and noncommercial motor vehicles not exceeding 6,500 pounds, and \$0.015 per pound for nonpassenger commercial vehicles and all other motor vehicles, with a minimum of \$6.00 annually for all vehicles.

The tax rates for the County of Kauai are \$0.0075 per pound for passenger motor vehicles and noncommercial motor vehicles not exceeding 6,500 pounds, and \$0.02 per pound for nonpassenger vehicles and all other motor vehicles, with a minimum of \$12.00 annually for all vehicles.

The tax rates for the County of Hawaii are \$0.005 per pound for passenger motor vehicles and noncommercial motor vehicles not exceeding 6,500 pounds, and \$0.01 per pound for nonpassenger motor vehicles and commercial vehicles and motor vehicles over 6,500 pounds, with a minimum of \$6.00 annually for all vehicles.

### **County Vehicle Registration Fees**

Each county imposes various registration fees for vehicles, including fees for certificates of registration, license plates and decals. Each county collects both State and county vehicle registration fees and remits the State vehicle registration fees and reimbursements for State-incurred expenses to the State to be paid into the State Highway Fund. The fees range from \$0.50 for decals, between \$2.00 to \$3.00 for registration certificates and between \$3.50 to \$5.00 for license plates.

None of such federal or county taxes or fees, nor the State general excise tax, is pledged to the payment of the Bonds or provides a source of revenues for such payment, but such taxes and fees do affect the feasibility of imposing additional charges on the use of vehicles.

## **FEDERAL AID TO HAWAII**

### **Federal Aid Reimbursements**

Generally the costs of financing highways for which the federal government provides assistance is undertaken on a shared basis with the State, with the federal government providing reimbursement to the State for 90% of eligible costs of construction when federal-aid funding is used on Interstate Highways and 80% of the costs on other highways and streets not functionally classified as local or rural minor collector roads. Federal aid reimbursements are deposited in the State Highway Fund. Such amounts are not Pledged Funds under the Certificate.

The following table sets forth federal aid reimbursements to the State for each of the last ten fiscal years ended June 30, 2008.

### Federal Aid Reimbursements to the State

<u>Fiscal Year</u>	<u>Interstate</u>	<u>Other</u>	<u>Total Amount Reimbursed</u>
1999	56,126,780	54,076,025	110,202,805
2000	20,813,022	58,202,810	79,015,832
2001	62,528,229	60,487,566	123,469,045
2002	12,299,728	126,422,988	138,722,716
2003	12,653,232	119,428,422	132,081,654
2004	4,089,068	78,449,020	82,538,088
2005	4,527,856	153,676,090	158,203,946
2006	8,052,420	112,460,631	120,513,051
2007	14,222,350	103,783,481	118,005,831
2008*	8,410,213	183,929,315	192,339,528

\* Unaudited.

Source: Department of Transportation.

### Safe Accountable, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU)

On August 10, 2005, President Bush signed the Safety, Accountable, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) that authorized the Federal Surface transportation programs for highways, highway safety, and transit for the five-year period from 2005 to 2009. Under this current highway act, Hawaii's federal funding was \$180.6 million in fiscal year 2005, \$185.8 million in fiscal year 2006, \$177.5 million in fiscal year 2007, and \$167.1 million in fiscal year 2008. Hawaii's fiscal year 2009 estimated federal funding is \$176.9 million. SAFETEA-LU expires on September 30, 2009.

The amount of funds that Congress allows the states to obligate each year (obligation limitation) is less than the funds apportioned, and it varies from year to year. In fiscal years 2006, 2007, and 2008, the amount was 87.1%, 90.5%, and 92.4% of the apportionment, respectively.

Some of the federal highway funds that Hawaii receives are passed through to the counties and other agencies. The amount of federal highway funds used by the counties and other agencies varies and depends on the projects the counties and other agencies have programmed in the Statewide Transportation Improvement Program (STIP). The highway act requires that projects using federal highway and transit funds, as well as projects that are considered regionally significant, be programmed in the STIP.

The Federal-aid Highway Program requires matching funds. With some exceptions, the matching shares are 90% Federal / 10% State for projects on the Interstate System and 80% Federal / 20% State funds for other projects. Some activities like training and educational activities and certain safety projects are eligible for 100% funding.

### THE STATE HIGHWAY SYSTEM

#### General

In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies.



The State is served by approximately 4,234.75 linear miles of public highways, streets and roads administered by the Department and the counties. An additional 117.64 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

There are four counties in the State: the City and County of Honolulu includes the entire island of Oahu and the uninhabited windward islands, Kauai County includes the islands of Kauai and Niihau, Maui County includes the islands of Molokai, Maui, Lanai and Kahoolawe, and Hawaii County is comprised of the island of Hawaii. There are no roadways or bridges connecting one island to another.

Honolulu, on Oahu, is the State's only major metropolitan area. Approximately 71% of the population of the State lives on Oahu.

The State's highways, streets and roads are discussed below, first by the level of government responsible for administering the roadways, followed by a discussion of the federal aid system and the functional classifications. The State Highway System receives most of the federal aid highway funds made available to the State.

### State Highway System

The State Highway System, which is administered by the Department, consists of 932.27 linear miles of roadways. The Department has classified the State Highway System as follows: interstate (54.90 miles), freeway expressway (33.65 miles), principal arterial (307.74 miles), minor arterial (267.66 miles), major collector (268.34 miles), and minor collector (0 miles).

The following tables set forth the number of miles of the various categories of public highways, streets and roads, comprising the State Highway System.

State Highway System							
Functional Classification	Oahu	Hawaii	Maui	Kauai	Molokai	Lanai	Total
Interstate	54.90	0.00	0.00	0.00	0.00	0.00	54.90
Freeway Expressway	33.63	0.00	0.00	0.00	0.00	0.00	33.65
Principal Arterial	121.04	110.27	55.35	21.08	0.00	0.00	307.74
Minor Arterial	23.32	168.45	29.31	46.58	0.00	0.00	267.66
Major Collector	6.51	69.40	84.15	38.95	55.65	13.68	268.34
Minor Collector	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total	239.40	348.12	168.81	106.61	55.65	13.68	932.27

Source: Department of Transportation, HPMS.

The most important component of the State Highway System is the interstate system on Oahu. Interstate H-1 is a 27-mile freeway through the major populated areas of Honolulu, from Ewa on the western end of Oahu to Kahala on the eastern end. Interstate H-2 is an eight mile freeway from the H-1 freeway at Pearl City to the U.S. Army's Schofield Barracks in Wahiawa. Interstate H-3 is a recently-completed 16-mile freeway from the H-1 freeway at Halawa Valley in Pearl Harbor through the Koolau mountains to the U.S. Marine Corps Air Station at Kaneohe in windward Oahu. Interstate H-201, Moanalua Freeway connects to the H-1 Freeway at the Middle Street and Halawa Interchanges.

Other major State highways on the island of Oahu include the Pali Highway and Likelike Highway which connect Honolulu to the Windward Oahu communities of Kailua and Kaneohe, respectively, and Kamehameha Highway and Farrington Highway, which circle Oahu's windward and leeward coastlines. Kalaniana'ole Highway circles the eastern part of Oahu and connects eastern Honolulu to the windward coastline.

Major State highways on the island of Hawaii include the Queen Kaahumanu Highway in North Kona, the Kuakini Highway in South Kona, the Mamalahoa Highway in West Hawaii, and portions of the Hawaii Belt Road in East Hawaii.

Major State highways on the island of Kauai include Kaumualii Highway in west Kauai and Kuhio Highway in east Kauai.

Major State highways in Maui County, include on the island of Maui Honoapiilani Highway and Kahekili Highway in West Maui and Hana Highway, Haleakala Highway, Mokulele Highway and Piilani Highway in east Maui. Maunaloa Highway and Kamehameha V Highway are the major State roads on the island of Molokai.

### **Federal Agencies**

Various federal agencies have jurisdiction over certain public highways, streets and roads open to the public in national parks and military reservations in the State, including the United States National Park Service and the military services. The United States National Park Service also builds and maintains roads within the boundaries of the national parks.

## **THE DEPARTMENT OF TRANSPORTATION**

**Management Directions.** On January 5, 2007, a Letter of Agreement and Stewardship Plan between the Department and the Federal Highway Administration was approved. These documents accomplished a major goal of the respective agencies, which was to, in partnership, further improve program and project delivery in the State through the outlining of responsibilities and accountability.

The Department continues to focus its management efforts on programs that will bring about operational improvements and cost efficiencies through innovation and new technology. The Department implemented a new concept approach to working with the private sector referred to as "partnering." All parties must agree to commit to the quality, safety, timeliness and cost efficiency of the project.

To increase efficiency for planning and maintaining highway improvements, the Department is utilizing an integrated and automated database management system. This Coordinated Data System (CDS) will compile all highway improvement data (e.g., road inventory, pavement condition survey, vehicular traffic, highway improvement and maintenance expenditure) provided by the various offices within the Department. Updating and maintenance of such data will be transmitted electronically to the CDS.

To service the general public more efficiently, the Department installed electronic highway message signs at various locations on Oahu to forewarn motorists of lane closures, obstructions or accidents ahead. The Department also keeps the employees and general public informed on projects, events, public hearings and departmental news with newsletters, an internet site and provides telephone hotlines for instant information and feedback.

**Oahu Metropolitan Planning Organization (“OMPO”).** The Federal Surface Transportation Assistance Act of 1973 and other federal laws require states to designate and fund a metropolitan planning organization (MPO) for any urbanized area with a population greater than 500,000 to ensure that the plans and program for each metropolitan area shall provide for the development and integrated management and operation of transportation systems and facilities that will function as an intermodal transportation system for the metropolitan area. The process for developing the plan and program is required to provide for the consideration of all modes of transportation and to be continuing, comprehensive, and cooperative.

In 1975, the State Legislature established the Oahu Metropolitan Planning Organization (OMPO), an advisory organization responsible for coordinating transportation planning for Oahu. The decision making body of OMPO is its Policy Committee, which consists of six state legislators, five Honolulu City Council members, the Director of the State Department of Transportation and the Director of the City Department of Transportation Services.

OMPO is responsible for identifying Oahu’s future transportation needs and programming the federal funds for projects and programs. The federal funds are programmed based on a process which prioritizes the projects based on needs and available funding. This is achieved through the development of the following three documents:

(a) The Oahu Regional Transportation Plan (ORTP) – The 25-year long range transportation plan for Oahu.

(b) The Overall Work Program (OWP) – Annual work program that identifies all of OMPOs planning activities.

(c) The Transportation Improvement Program (TIP) – The four-year multimodal transportation improvement program for Oahu. The TIP also includes two illustrative years beyond the four approved years (six years total). It is updated every three years and is adopted directly into the Statewide Transportation Improvement Program (STIP), without change.

**Statewide Transportation Improvement Program (“STIP”).** On September 28, 2007, the Federal Highway Administration approved the STIP for fiscal years 2008 to 2011. Along with the four approved years of the STIP, two illustrative years were also included to show upcoming efforts. Since the initial approval of the 2008-2011 (+2) STIP, it has been revised four times; twice with major amendments, and twice with minor administrative modifications. With the start of the new federal fiscal year, the state has begun making preparations for a fifth revision of the 2008-2011 (+2) STIP. We expect this revision to be federally approved by early next calendar year.

**Authorized Projects.** The following capital improvements projects have been authorized for implementation by the State Legislature and the Governor and comprise a part of the total highway program.

<u>Project Description</u>	<u>Phase</u>	Amount	Estimated
		Allotted (in thousands) <u>FY2008</u>	Allotment (in thousands) <u>FY2009</u>
Castle Hills Access Road Drainage Improvements, Oahu	Design	\$1,000	
Castle Hills Access Road Drainage Improvements, Oahu	Construction		\$1,000
Farrington Highway Improvements Between Honokai Hale	Design	\$1,465	

<u>Project Description</u>	<u>Phase</u>	<u>Amount Allotted (in thousands) FY2008</u>	<u>Estimated Allotment (in thousands) FY2009</u>
and Hakimo Road, Oahu			
Freeway Management System, Oahu	Construction		\$832
Guardrail and Shoulder Improvements on Various State Highways, Hawaii	Construction		\$560
Hana Highway Improvements, Uakea Road to Keawa Place	Construction	\$760	
Hana Highway Rockfall Mitigation, Huelo to Hana, Maui	Construction	\$4,700	
Highway Planning, Statewide	Planning	\$875	
Highway Shoreline Protection, Statewide	Design		\$1,450
Highways Division Materials Testing and Research Facility Renovation, Statewide	Construction	\$6,050	
Honoapiilani Highway Widening and/or Realignment, Honokowai to Puamana, Maui	Design	\$1,210	
Honoapiilani Highway Widening and/or Realignment, Honokowai to Puamana, Maui	Construction	\$1,237	
Honoapiilani Highway Widening, Maui	Construction	\$3,000	
Honoapiilani Highway, Revetment Protection at Launiupoko, Maui	Construction		\$1,800
Honokaa Baseyard Improvements	Construction	\$800	
Improvements to Intersections and Highway Facilities, Statewide	Design	\$1,482	
Interstate Route H-1, Addition and Modification of Freeway Access, Makakilo to Palailai Interchanges, Oahu	Construction		\$1,071
Interstate Route H-1, Westbound Afternoon (PM) Zipperlane, Oahu	Design		\$2,100
Interstate Route H-1, School Street Off-ramp Drainage Improvements and On-ramp Retaining Wall Replacement, Oahu	Construction		\$7,999
Kalaniana'ole Highway Improvements, Retaining Wall at Makapuu, Oahu	Construction	\$2,647	
Kalaniana'ole Highway Median Improvements, Vicinity of Olomana Golf Course, Oahu	Construction		\$1,750
Kamehameha Highway Improvements, Waihona Street to Center Drive, Oahu	Planning	\$1,200	
Kamehameha Highway Improvements, Waihona Street to Center Drive, Oahu	Construction	\$7,600	
Kamehameha Highway, North Kahana Stream Bridge Replacement, Oahu	Construction	\$2,249	
Kamehameha Highway, South Punaluu Bridge Replacement, Oahu	Construction		\$3,240
Kaumualii Highway Improvements, Lihue to West of Maluhia Road	Construction		\$7,325
Kaumualii Highway, Kuhio Highway, and Kuamoo Road Retaining Walls, Kauai	Construction	\$2,725	
Keaau-Pahoa Road Shoulder Lane Conversion, Keaau Bypass Road to Shower Drive, Hawaii	Construction		\$885

<u>Project Description</u>	<u>Phase</u>	Amount Allotted (in thousands) <u>FY2008</u>	Estimated Allotment (in thousands) <u>FY2009</u>
Kuakini Highway Roadway & Drainage Improvements, Vicinity of Kamehameha III Road, Hawaii	Construction	\$1,295	
Kuhio Highway, Hanamaulu to Kapaa, Kauai	Construction	\$4,520	\$2,800
Kuhio Highway, Replacement or Strengthening of Wainiha Bridges	Construction	\$4,800	
Maunaloa Highway Slope Stabilization at MP 13 and MP 14.3, Molokai	Construction		\$1,700
Miscellaneous Drainage Improvements, Statewide	Construction		\$1,736
North/South Road, Kapolei Parkway to Interstate Route H-1, Oahu	Construction	\$12,846	
Pearl City, Waianae and Kaneohe Baseyards, Washdown Racks	Construction	\$1,610	
Queen Kaahumanu Highway Widening, Hawaii	Construction	\$2,600	
Queen Kaahumanu Highway Widening, Hawaii	Construction		\$4,837
Saddle Road Maintenance Baseyard, Vicinity of Mauna Kea Park, Hawaii	Design		\$600
Seismic Retrofit of Various Bridges, Statewide	Construction	\$815	
Traffic Operational Improvements to Existing Intersections and Highway Facilities, Hawaii	Construction		\$1,050
Traffic Operational Improvements to Existing Intersections and Highway Facilities, Maui	Design		\$600
Traffic Operational Improvements to Existing Intersections and Highway Facilities, Maui	Construction	\$1,795	\$500
Traffic Operational Improvements to Existing Intersections and Highways, Oahu	Construction	\$922	\$760
Traffic Operational Improvements to Existing Intersections and Highways, Kauai	Design		\$1,023
Traffic Operational Improvements to Existing Intersections and Highways, Kauai	Construction		\$1,130
Traffic signal Modernization at Various Locations, Statewide	Construction		\$900
Waimea Canyon Drive/ Kokee Road Improvements, Mile Post 0 to Mile Post 14, Kauai	Construction		\$2,148

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APPENDIX C

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

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## GENERAL INFORMATION ABOUT THE STATE OF HAWAII

*The statistical information presented by this Appendix A is the most current information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.*

### INTRODUCTION

#### General

The State was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands, in order of size, are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, and 1,211,537 in 2000, making the State the forty-second most populous state in the Union as of 2000. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2000 U.S. Census, about 72.3% of the population of the State lives on Oahu. Hawaii's population exhibits greater ethnic diversity than other states because it is descended from immigrants from the Far East as well as from Europe and the mainland United States. Based on the 2000 U.S. Census, approximately 41.6% of the State's population is of Asian descent and about 24.3% of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 9.4% of the population. The balance consists of people of mixed races and other races, such as African Americans and American Indians.

#### State Government

The Constitution of the State provides for three separate branches of government: the legislative branch, the executive branch and the judicial branch. The legislative power is vested in a bicameral Legislature consisting of a Senate of twenty-five members elected for four-year terms and a House of Representatives of fifty-one members elected for two-year terms. The Legislature convenes annually. The executive power is vested in a Governor elected for a four-year term. In the event of the absence of the Governor from the State, or his or her inability to exercise and discharge the powers and duties of his or her office, the Lieutenant Governor, also elected for a four-year term, serves as the chief executive. Under the Constitution, the judicial power is vested in a Supreme Court, one intermediate appellate court, circuit courts, district courts, and such other courts as the Legislature may from time to time establish. Pursuant to statute, the Legislature has established four circuit courts, four district courts and an intermediate appellate court. The executive and administrative offices are limited to not more than twenty principal departments under the supervision of the Governor. The executive functions have in fact been grouped into eighteen departments. The heads of the departments are appointed by the Governor, with the advice and consent of the Senate, and hold office for a term to expire with the term of the Governor. The Department of Budget and Finance is one of the principal departments permitted by the Constitution of the State, with the head of said department being designated as the Director of Finance. Under the general direction of the Governor, the Department of Budget and Finance administers the State's

proposed six-year program and financial plan, the State budget, and financial management programs of the State.

### **The Counties and Their Relationship to the State**

There are four counties in the State: the City and County of Honolulu, the County of Maui, the County of Hawaii and the County of Kauai (and one quasi-county, Kalawao). Each of the counties has a separate charter for its government, each of which provides for an elected mayor and an elected council. The mayor is the chief executive and the council is the legislative body. There are no independent or separate cities or other municipalities, school districts or townships. The State government of Hawaii has total responsibility for many functions that are performed by or shared by local governments in most other parts of the United States. For example, the State pays all costs in connection with the public school system, libraries, public welfare, and judiciary. The greatest expenditures by the State in past years have been in the areas of education and public welfare. The counties' major areas of responsibility and expenditure are in police and fire protection, waste disposal, water and sewer facilities, and secondary streets and highways.

## **GENERAL ECONOMIC INFORMATION**

### **General**

The following material pertaining to economic factors in the State under the captions "State of the Economy" through and including "Table 10" has been excerpted from the Hawaii State Department of Business, Economic Development and Tourism ("DBEDT") Fourth Quarter 2008 Quarterly Statistical and Economic Reports ("QSER") or otherwise prepared by DBEDT, some of which may be found at <http://www.hawaii.gov/dbedt/>. Unless otherwise stated, the following information is historical, estimated figures are used only when the definitive figures are unavailable. Unless otherwise specifically stated, all references to years and quarters in the following information are to calendar years and calendar quarters, respectively. The text refers to certain enumerated tables found under "GENERAL ECONOMIC INFORMATION." Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position.

DBEDT's latest forecast for the State's nominal Gross Domestic Product ("GDP") (the value of all goods and services produced within the State, formerly called the Gross State Product or "GSP") growth in 2008 is 3.0%. In real terms (adjusting for inflation), DBEDT predicts the 2008 State's GDP growth to be 0.3% over 2007.

### **State of the Economy**

After showing mixed results through the second quarter of 2008, Hawaii's economy continued to slow through the third quarter of 2008, primarily the result of worsening national economic conditions and the decline of visitor industry activity in the State. Wage and salary jobs in the third quarter showed no increase from the year before, as solid gains in education, miscellaneous services and government jobs were countered by declines in transportation, entertainment, and accommodations, among others. Total civilian employment did register an increase in the third quarter from the year before, suggesting that the third quarter slowdown in jobs may have affected mainly part time, second job holders. Still, an increase in the civilian labor force that could not be accommodated in the job market resulted in an increase in number of unemployed and the unemployment rate from the same quarter in 2007. Visitor arrivals, visitor expenditures, and new private building authorizations all declined for the quarter. However, total tax collections distributed to the State general fund revenues and the value of government contracts

awarded increased.

According to the most recent data available, in the second quarter of 2008, total nominal personal income (before correcting for inflation) increased \$2,840 million or 5.7 percent from the same quarter of 2007. The sharpest growth was in Personal Current Transfer Receipts (14.2 percent), mainly due to Economic Stimulus Act of 2008 rebate payments, followed by Supplements to Wages and Salaries (5.4 percent), Wage and Salary Disbursements (4.9 percent), and Dividends, Interest, and Rent (3.5 percent). Contributions for Government Social Insurance, which is subtracted from personal income, increased 4.4 percent. For 2007, total personal income increased 5.9 percent from 2006.

In the first half of 2008, Honolulu's consumer price index ("CPI") increased 4.9% from the first half of 2007 and increased 2.2% from the second half of 2007. In 2007, Honolulu's CPI increased 4.9% from the previous year, which was lower than a 5.8% increase in 2006, but much higher than a 2.8% rise for the U.S. CPI in 2007.

For the third quarter of 2008, total tax collections distributed to the State general funds totaled \$1,164.2 million, a \$17.6 million or 1.5 percent increase over the third quarter of 2007. General Excise and Use Tax (GET) revenues totaled \$657.7 million, an increase of \$11.4 million or 1.8 percent. Net Individual Income Tax revenues increased \$3.9 million or 1.0 percent to \$383.0 million. Transient Accommodations Tax (TAT) revenues were up \$0.9 million or 1.6 percent. In 2007, State general fund tax revenues totaled \$4,683.1 million, up \$160.8 million or 3.6 percent from 2006.

Indicators of tourism activity in Hawaii declined sharply in the third quarter of 2008 from last year. The total number of visitors arriving by air to Hawaii declined 16.6 percent in the third quarter compared to the same quarter of 2007. The overall, average daily census decreased 14.2 percent in the quarter. Average hotel occupancy rate was down 8.6 percentage points to 70.6 percent in the third quarter from a year earlier. In 2007, total arrivals were down 0.4 percent, while average daily census was about the same as that of 2006. In 2007, hotel occupancy averaged 75.3 percent, down 4.3 percentage points from 2006.

The third quarter indicators of Hawaii's construction industry were mixed. For the first time since early 2002, construction jobs showed a decline from the previous year's comparable quarter, down a slight 0.6 percent. The value of private building authorizations decreased \$206.3 million compared to the same quarter of 2007. However, the value of government contracts awarded increased \$96.7 million in the third quarter. For the year of 2007, construction jobs grew 6.8%, while total value of new building permits decreased 4.9% from 2006, the first year-over-year decline in the total permit value since 1998.

In the existing housing market, for both single-family and condominium units, the median resale prices and the numbers of units resold were down in the third quarter of 2008 compared to the same quarter last year.

### **Outlook for the Economy**

In its latest quarterly economic report, DBEDT is forecasting virtually no growth or negative growth in Hawaii's economy through most of 2009. Real personal income, total wage and salary jobs, and State GDP are all forecast to show no growth or negative growth in 2009. Visitor arrivals are expected to decrease 10.1% and 1.9% in 2008 and 2009, respectively.

Nominal personal income growth rates for 2008 and 2009 are forecast at 4.0% and 2.2%, respectively. Real personal income growth rates for 2008 and 2009 are expected to be negative 0.2% and negative 0.4%, respectively, after deflating the nominal values by the Honolulu's CPI-U. Honolulu's CPI

is expected to rise 4.2% in 2008, and 2.6% in 2009.

In 2007, Hawaii's GDP increased 4.9% in nominal terms and 3.0% real terms. Real GDP growth is projected to be 0.3% and 0.0%, respectively, in 2008 and 2009.

The future outlook for Hawaii's economy is linked to the U.S. and Japanese economies. According to the November 2008 Blue Chip Economic Consensus Forecasts, real U.S. GDP growth will manage 1.4 percent for 2008 as a whole. However, the forecast for 2009 real U.S. GDP was reduced nearly a full percentage point to negative 0.4 percent for the year. For Japan, real GDP growth is projected to be 0.5 percent in 2008 and negative 0.1 percent for 2009. The latest forecast for U.S. consumer price inflation is 4.2 percent for 2008 and 1.5 percent for 2009.

Based on latest data and the outlook in coming months, in 2008 total visitor arrivals, total visitor days, and total nominal (current dollar) visitor expenditures are expected to decline 10.1%, 9.7%, and 9.5%, respectively. For 2009, visitor arrivals and visitor days are predicted to decrease 1.9 percent and 1.7 percent, respectively, while the visitor expenditures are forecast to increase 0.7 percent from 2008.

Major indicators of construction activity for the first nine months of 2008 suggest slower construction activity in Hawaii for the rest of 2008 and into 2009. Despite decreases in total value of new private building authorizations in the first nine months of 2008, permit levels still remain relatively high compared to historical levels. In addition, the continuing military privatization project and prospects for increasing State construction expenditures in the next few years will cushion the decrease in private activity.

# INFORMATION ON EMPLOYMENT, WAGES AND SALARIES, TAX REVENUES AND TAX BASE

Table 1

## SELECTED ECONOMIC ACTIVITIES: STATE

	UNIT	3rd QUARTER 2008		YEAR-TO-DATE 2008	
		NUMBER	% CHANGE YEAR AGO	NUMBER	% CHANGE YEAR AGO
Civilian Labor Force <sup>1/</sup>	Persons	666,450	3.1	661,800	1.9
Civilian Employment	Persons	636,950	1.5	637,200	0.7
Civilian Unemployment	Persons	29,500	57.8	24,550	45.3
Unemployment Rate <sup>1/2/</sup>	%	4.4	1.5	3.7	1.1
Total Wage & Salary Jobs	Jobs	624,900	0.0	630,600	0.4
Total Non-Agriculture Wage & Salary Jobs	Jobs	618,800	0.0	624,400	0.5
Nat. Resources, Mining, Constr.	Jobs	39,250	-0.6	39,400	1.9
Manufacturing	Jobs	15,100	-0.3	15,150	-0.7
Wholesale Trade	Jobs	18,500	0.3	18,550	1.1
Retail Trade	Jobs	70,050	0.9	70,250	0.9
Transp., Warehousing, Util.	Jobs	28,950	-11.9	30,350	-7.6
Information	Jobs	10,300	-2.8	10,550	-1.9
Financial Activities	Jobs	29,550	-1.5	29,800	-0.8
Professional & Business Services	Jobs	77,050	1.2	77,000	1.6
Educational Services	Jobs	14,500	4.7	14,900	5.3
Health Care & Social Assistance	Jobs	59,550	1.5	59,350	1.4
Arts, Entertainment & Recreation	Jobs	11,300	-7.8	11,350	-5.8
Accommodation	Jobs	37,900	-2.3	38,500	-1.9
Food Services & Drinking Places	Jobs	58,850	-0.2	58,700	-0.2
Other Services	Jobs	27,350	2.8	27,050	2.5
Government	Jobs	120,600	2.9	123,350	1.9
Federal	Jobs	32,400	3.0	31,900	0.6
State	Jobs	69,200	2.6	72,900	2.1
Local	Jobs	19,000	3.8	18,500	3.4
Agriculture wage and salary jobs	Jobs	6,150	-3.1	6,250	-4.6
State General Fund Revenues	\$1,000	1,164,199	1.5	3,534,606	-0.7
General Excise and Use Tax	\$1,000	657,747	1.8	1,977,385	0.3
Income-Individual	\$1,000	382,982	1.0	1,178,376	-2.5
Transient Accommodation Tax	\$1,000	59,640	1.6	176,422	-1.3
Honolulu County Surcharge <sup>3/</sup>	\$1,000	47,088	-5.0	140,283	35.7
Visitor Days – by air	Days	15,435,850	-14.2	48,249,606	-7.6
Domestic visitor days – by air	Days	11,933,626	-17.3	38,037,504	-8.6
International visitor days – by air	Days	3,502,224	-1.7	10,212,102	-3.3
Visitor arrivals – by air	Persons	1,670,403	-16.6	5,169,845	-9.1
Domestic flight visitors – by air	Persons	1,202,321	-19.4	3,798,653	-10.6
International flight visitors – by air	Persons	468,082	-8.4	1,371,192	-4.5
Hotel occupancy rates <sup>2/</sup>	%	70.6	-8.0	72.7	-3.3
Visitor expenditures – arrivals by air	\$1,000	2,777,300	-15.3	8,718,200	-7.4

<sup>1/</sup> Labor force and jobs are Hawaii DLIR monthly and annual data. Quarterly averages computed by the Hawaii DBEDT.

<sup>2/</sup> Change represents absolute change in rates rather than percentage change in rates.

<sup>3/</sup> 0.5% added to the general excise tax to pay for Oahu's mass transit system and took effect January 1, 2007.

Includes taxpayers who have business activities on Oahu but whose businesses are located outside Oahu.

Source: Hawaii State Department of Business, Economic Development & Tourism <<http://www.hawaii.gov/dbedt/inf/>>, Hawaii State Department of Labor and Industrial Relations <<http://www.hiwi.org/cgi/dataanalysis/PAGEID=94>>, Hawaii State Department of Taxation <[http://www.hawaii.gov/tax/a5\\_3txcolrpt.htm](http://www.hawaii.gov/tax/a5_3txcolrpt.htm)> and Hospitality Advisors, LLC.

# Key Economic Indicators

Table 2

## ACTUAL AND FORECAST KEY ECONOMIC INDICATORS FOR HAWAII: 2006 TO 2011

Economic Indicators	2006	2007	2008	2009	2010	2011
	(Actual)		(Forecast)			
Total population (thousands)	1,279	1,283	1,292	1,303	1,316	1,329
Visitor arrivals (thousands) <sup>1/</sup>	7,628	7,628	6,860	6,732	6,829	6,943
Visitor days (thousands) <sup>1/</sup>	69,885	70,075	63,276	62,173	63,080	64,170
Visitor expenditures (million dollars) <sup>1/</sup>	12,492	12,811	11,598	11,680	12,199	12,774
Honolulu CPI-U (1982-84=100)	209.4	219.5	228.7	234.7	240.3	246.3
Personal income (million dollars)	47,338	50,130	52,138	53,297	55,130	57,361
Real Personal income (millions of 2000\$) <sup>2/</sup>	39,865	40,263	40,188	40,040	40,447	41,057
Total wage & salary jobs (thousands)	624.0	630.1	630.2	629.0	632.3	637.6
Gross domestic product (million dollars)	58,676	61,532	63,398	64,971	67,256	70,026
Real gross domestic product (millions of 2000\$)	48,428	49,860	50,006	50,015	50,561	51,359
Gross domestic product deflator (2000=100)	121.2	123.4	126.8	129.9	133.0	136.3
<b>Annual Percentage Change</b>						
Total population	0.9	0.4	0.7	0.8	1.0	1.0
Visitor arrivals <sup>1/</sup>	1.8	0.0	-10.1	-1.9	1.4	1.7
Visitor days <sup>1/</sup>	2.4	0.3	-9.7	-1.7	1.5	1.7
Visitor expenditures <sup>1/</sup>	4.9	2.6	-9.5	0.7	4.4	4.7
Honolulu CPI-U	5.8	4.9	4.2	2.6	2.4	2.5
Personal income	7.3	5.9	4.0	2.2	3.4	4.0
Real personal income <sup>2/</sup>	1.4	1.0	-0.2	-0.4	1.0	1.5
Total wage & salary jobs	2.5	1.0	0.0	-0.2	0.5	0.8
Gross domestic product	7.0	4.9	3.0	2.5	3.5	4.1
Real gross domestic product	3.2	3.0	0.3	0.0	1.1	1.6
Gross domestic product deflator	3.7	1.9	2.7	2.5	2.4	2.5

<sup>1/</sup> Visitors who came to Hawaii by air or by cruise ship -

<sup>2/</sup> DBEDT calculated using BEA estimate of nominal personal income deflated by U.S. Bureau of Labor Statistics Honolulu CPI-U.

Source: Hawaii State Department of Business, Economic Development & Tourism, November 17, 2008.

## Labor Force and Jobs

In the third quarter of 2008, Hawaii's civilian labor force averaged 666,450 people, up 3.1% from the same quarter of 2007. In the first nine months of 2008, civilian labor force averaged 661,800, up 1.9% from the same period of 2007. For the year of 2007, civilian labor force grew 0.2% from 2006.

Hawaii's total civilian employment averaged 636,950 in the third quarter of 2008, an increase of 1.5% from the same quarter of 2007. In the first nine months of 2008, civilian employment averaged 637,200, up 0.7% from the same period of 2007. For the year of 2007, total civilian employment remained about the same as that of 2006.

The number of civilians unemployed averaged 29,500 in the third quarter of 2008, up 57.8% from the same quarter of 2007. This was the highest rate of increase in the number of unemployed in a quarter since the fourth quarter of 1992. In the first nine months of 2008, the number of civilian unemployed averaged 24,550, up 45.3% from the same period of 2007. For the year of 2007, the number of unemployed people increased 7.2%, the first annual increase since 2001. Hawaii's unemployment rate (not seasonally adjusted) also increased in the third quarter of 2008 to 4.4% from 2.9% in the third quarter of 2007. In 2007, Hawaii's unemployment rate averaged 2.6 percent, slightly higher than that of 2006.

In the third quarter of 2008, Hawaii's civilian wage and salary jobs averaged 624,900, about the same as in the third quarter of 2007. In the first nine months of 2008, civilian wage and salary jobs

averaged 630,600, up 0.4% from the same period of 2007. Wage and salary jobs increased 1.0 percent in 2007 on top of a 2.5 percent increase in 2006.

Compared to the third quarter of 2007, Professional and Business Services added the most jobs in the third quarter of 2008, an increase of 950 jobs or 1.2 percent, followed by Health Care and Social Assistance with 900 jobs or 1.5 percent, Other Services with 750 jobs or 2.8 percent, Educational Services with 650 jobs or 4.7 percent, and Retail Trade with 650 jobs or 0.9 percent. In the third quarter of 2008, Transportation, Warehousing, and Utilities lost 3,900 jobs or 11.9 percent compared to the same quarter of 2007, Arts, Entertainment, and Recreation lost 950 jobs or 7.8 percent, Accommodation lost 900 jobs or 2.3 percent, Financial Activities lost 450 jobs or 1.5 percent, Information lost 300 jobs or 2.8 percent, Natural Resources, Mining and Construction lost 250 jobs or 0.6 percent, and Agriculture lost 200 wage and salary jobs or 3.1 percent. During the third quarter of 2008, government added 3,400 jobs or 2.9 percent compared to the same quarter of 2007: Federal government added 950 jobs; State government added 1,750 jobs; and Local government added 700 jobs in the third quarter of 2008 compared with the third quarter of 2007.

**Table 3**  
**CIVILIAN LABOR FORCE AND EMPLOYMENT**  
(Number of persons)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
1996	596,750	1.2	561,700	0.8	5.9
1997	601,650	0.8	566,750	0.9	5.8
1998	604,300	0.4	570,150	0.6	5.7
1999	606,650	0.4	576,300	1.1	5.0
2000	609,000	0.4	584,850	1.5	4.0
2001	615,250	1.0	589,200	0.7	4.2
2002	608,950	-1.0	584,350	-0.8	4.0
2003	616,300	1.2	592,450	1.4	3.9
2004	622,550	1.0	602,450	1.7	3.2
2005	635,400	2.1	618,000	2.6	2.7
2006	647,600	1.9	631,600	2.2	2.5
2007	649,100	0.2	631,900	0.0	2.6

### Income and Prices

Hawaii's total nominal personal income continued to grow at a solid pace in the second quarter of 2008 (the latest period for which income data are available from the Bureau of Economic Analysis) over the same quarter of 2007. The rate of growth was the highest for Personal Current Transfer Receipts, followed by Supplements to Wages and Salaries, Wage and Salary Disbursements, and Dividends, Interest and Rent. Most major private sectors experienced positive earnings growth, with Health Care and Social Assistance, Professional and Technical Services, Construction, Accommodations and Food Services, Retail Trade, Wholesale Trade, and Other Services leading the growth in dollar terms.

During the second quarter of 2008, Wage and Salary Disbursements increased \$1,392 million or 4.9% from the same quarter of 2007. In 2007, Wage and Salary Disbursements were up 5.5% from 2006. Wage and Salary Disbursements comprised about 57% of total personal income.

Supplements to Wages and Salaries (consisting of employer payments to retirement plans, private group health insurance plans, private workers compensation plans, and other such benefits) increased \$429 million or 5.4% in the second quarter of 2008 from that of 2007. For 2007, Supplements to Wages and Salaries increased 5.3% from 2006.

Proprietors' Income (the income most closely related to entrepreneurial activity) decreased \$6 million or 0.2% in the second quarter of 2008 over that of 2007. For the year 2007, Proprietors' Income was up 1.8% from that of the 2006.

Dividends, Interest, and Rent increased \$279 million or 3.5% in the second quarter of 2008 from the same quarter of 2007. For the year 2007, Dividends, Interest, and Rent were up 9.8% from the previous year.

Personal Current Transfer Receipts (consisting largely of retirement and medical payments) increased \$920 million or 14.2% in the second quarter of 2008 from the same quarter of 2007. In the year of 2007, Personal Current Transfer Receipts increased 7.7% from the previous year.

Contributions to Government Social Insurance, which is subtracted from total personal income, increased \$177 million or 4.4% in the second quarter of 2008 compared to the same quarter of 2007. In 2007, Contributions to Government Social Insurance were up 5.6% from that of the 2006.

Earnings increased across most private sectors in the second quarter of 2008. In dollar terms, the largest increase occurred in Health Care and Social Assistance (\$306 million or 9.4%), followed by Professional and Technical Services (\$139 million or 5.9%), Construction (\$76 million or 2.4%), Accommodations and Food Service (\$75 million or 2.2%), Retail Trade (\$71 million or 2.8%), Wholesale Trade (\$57 million or 5.0%), and Other Services (\$50 million or 4.1%). Total government earnings increased \$865 million or 6.8%, including a \$522 million or 6.8% increase in Federal government earnings, and a \$342 million or 6.9% increase in State and Local government earnings.

In the first half of 2008, Honolulu's consumer price index (CPI) increased 4.9 percent from the same period last year, compared to the U.S. average CPI increase of 4.2 percent for the same period. The Honolulu CPI increase in the first half of 2008 was primarily due to increases in Housing, Transportation, Other Goods and Services, and Food and Beverages components, which increased 5.6 percent, 5.4 percent, 5.1 percent, and 4.7 percent, respectively in the first half of 2008 compared to the first half of 2007.



Table 4

**PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES**  
(In millions of dollars at seasonally adjusted annual rates)

Series	Second Quarter 2007	Second Quarter 2008	YTD 2007	YTD 2008	Percent change to	
					2008Q2 From 2007Q2	YTD2008 From YTD2007
PERSONAL INCOME	49,711	52,551	49,479	52,108	5.7	5.3
Earnings By Place of Work	39,222	41,039	39,115	40,866	4.6	4.5
Wage and salary disbursements	28,315	29,707	28,246	29,597	4.9	4.8
Supplements to wages and salaries	7,943	8,372	7,904	8,336	5.4	5.5
Employer contrib. for employee pension/ins. funds	6,010	6,369	5,963	6,338	6.0	6.3
Employer contributions for gov't social ins.	1,933	2,003	1,941	1,998	3.6	3.0
Proprietors' income	2,965	2,959	2,967	2,933	-0.2	-1.1
Farm proprietors income	-15	-13	-12	-31	( <sup>1/</sup> )	( <sup>1/</sup> )
Nonfarm proprietors income	2,979	2,972	2,977	2,964	-0.2	-0.5
Dividends, interest, and rent	8,026	8,305	7,915	8,308	3.5	5.0
Personal current transfer receipts	6,470	7,390	6,462	7,107	14.2	10.0
State unemployment insurance benefits	97	187	97	166	92.8	72.0
Personal current transfer receipts exc State U.I.	6,373	7,203	6,366	6,941	13.0	9.0
Less: Contributions for gov't social insurance	4,007	4,184	4,013	4,174	4.4	4.0
Personal contributions for gov't social insurance	2,074	2,181	2,072	2,176	5.2	5.0
Employer contributions for gov't social insurance	1,933	2,003	1,941	1,998	3.6	3.0
Earnings By Industry	39,222	41,039	39,115	40,866	4.6	4.5
Farm Earnings	204	212	206	193	3.9	-6.3
Nonfarm Earnings	39,019	40,827	38,909	40,673	4.6	4.5
Private earnings	26,365	27,309	26,320	27,220	3.6	3.4
Forestry, fishing, related activities, and other <sup>1/</sup>	42	39	44	39	-7.1	-11.4
Mining	55	61	55	61	10.9	10.0
Utilities	299	327	296	324	9.4	9.5
Construction	3,162	3,238	3,158	3,264	2.4	3.4
Manufacturing	1,009	1,033	1,008	1,023	2.4	1.5
Durable goods	389	396	387	393	1.8	1.4
Nondurable goods	620	637	620	630	2.7	1.6
Wholesale trade	1,141	1,198	1,131	1,199	5.0	6.0
Retail trade	2,507	2,578	2,493	2,571	2.8	3.1
Transportation and warehousing	1,630	1,675	1,611	1,667	2.8	3.5
Information	757	789	745	777	4.2	4.3
Finance and insurance	1,305	1,314	1,297	1,305	0.7	0.6
Real estate and rental and leasing	1,028	986	1,046	989	-4.1	-5.4
Professional and technical services	2,363	2,502	2,338	2,483	5.9	6.2
Management of companies and enterprises	651	646	656	637	-0.8	-3.0
Administrative and waste services	1,577	1,609	1,582	1,610	2.0	1.8
Educational services	550	578	545	577	5.1	5.9
Health care and social assistance	3,248	3,554	3,299	3,531	9.4	7.0
Arts, entertainment, and recreation	471	485	462	483	3.0	4.4
Accommodation and food services	3,349	3,424	3,339	3,416	2.2	2.3
Other services, except public administration	1,223	1,273	1,220	1,268	4.1	3.9
Government and government enterprises	12,653	13,518	12,589	13,454	6.8	6.9
Federal	7,699	8,221	7,675	8,167	6.8	6.4
Federal, civilian	2,977	3,107	2,977	3,076	4.4	3.3
Military	4,722	5,114	4,698	5,091	8.3	8.4
State and local	4,955	5,297	4,915	5,287	6.9	7.6

Source data for 2007Q2 and YTD 2007 have been revised.

<sup>1/</sup> Percentage changes involving zero or negative values are not meaningful.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, September 18, 2008  
<<http://www.bea.doc.gov/bea/regional/>>.

Table 5

**PERSONAL INCOME**  
(In millions of dollars at seasonally adjusted annual rates)

YEAR	ANNUAL AVERAGE	% CHANGE
1996	30,122	0.7
1997	31,002	2.9
1998	31,757	2.4
1999	32,646	2.8
2000	34,451	5.5
2001	35,126	2.0
2002	36,370	3.5
2003	37,837	4.0
2004	41,027	8.4
2005	44,283	7.9
2006	47,340	6.9
2007	50,277	6.2

<sup>11</sup> Source data for 2004Q1 to 2007Q3 have been revised.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, March 26, 2008  
<<http://www.bea.doc.gov/bea/regional/sqpi/>>.

Table 6

**HONOLULU and U.S. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U)**  
**[1982-84=100. Data are not seasonally adjusted]**

Period	U.S.	Honolulu								
		All Items	Food & Beverages	Housing	Apparel	Transportation	Medical Care	Recreation	Edu. & Comm <sup>1/</sup>	Other Goods & Services
1990	130.7	138.1	137.8	141.5	107.0	131.1	154.2	(NA)	(NA)	160.4
1991	136.2	148.0	145.9	152.8	110.5	139.3	171.3	(NA)	(NA)	175.7
1992	140.3	155.1	148.5	161.7	114.2	147.4	182.6	(NA)	(NA)	189.0
1993	144.5	160.1	152.9	166.5	116.5	150.5	197.4	(NA)	(NA)	200.1
1994	148.2	164.5	153.4	171.6	118.7	156.4	206.0	(NA)	(NA)	209.6
1995	152.4	168.1	156.8	174.7	117.5	162.4	209.8	(NA)	(NA)	216.8
1996	156.9	170.7	156.6	176.8	118.5	167.0	215.0	(NA)	(NA)	226.5
1997	160.5	171.9	159.2	177.1	117.3	166.2	217.3	(NA)	(NA)	239.0
1998	163.0	171.5	159.1	176.0	112.2	162.5	226.1	100.8	99.1	256.1
1999	166.6	173.3	162.9	175.8	105.4	162.2	231.3	101.9	104.5	275.6
2000	172.2	176.3	164.8	177.9	103.5	169.6	239.8	102.8	106.5	279.7
2001	177.1	178.4	169.5	179.1	101.0	174.5	<sup>2/</sup>	101.6	104.6	289.3
2002	179.9	180.3	171.9	181.2	102.6	170.9	<sup>2/</sup>	99.5	107.8	302.2
2003	184.0	184.5	174.9	186.2	98.5	176.4	<sup>2/</sup>	100.4	112.5	307.6
2004	188.9	190.6	180.2	194.3	101.2	182.4	275.9	102.3	113.5	312.4
2005	195.3	197.8	185.9	205.2	102.5	191.6	<sup>2/</sup>	97.8	114.3	321.0
2006	201.6	209.4	194.2	222.5	104.4	202.1	<sup>2/</sup>	101.1	114.0	332.1
2007	207.3	219.5	204.9	238.4	104.1	205.0	<sup>2/</sup>	102.6	114.0	347.5
1995H1	151.5	166.9	156.5	173.4	118.1	160.0	207.8	(NA)	(NA)	214.4
H2	153.2	169.4	157.1	176.0	116.9	164.9	211.8	(NA)	(NA)	219.2
1996H1	155.8	170.5	156.9	176.8	120.0	166.3	214.9	(NA)	(NA)	220.6
H2	157.9	171.0	156.3	176.8	116.9	167.7	215.0	(NA)	(NA)	232.4
1997H1	159.9	172.1	159.4	177.3	119.8	167.8	215.6	(NA)	(NA)	232.5
H2	161.2	171.8	159.0	177.0	114.8	164.6	219.1	(NA)	(NA)	245.5
1998H1	162.3	172.0	160.0	176.3	116.4	163.2	222.5	101.4	98.9	254.3
H2	163.7	171.0	158.2	175.7	108.0	161.8	229.8	100.3	99.3	258.0
1999H1	165.4	172.7	162.4	175.5	106.0	162.3	231.0	101.3	102.6	273.9
H2	167.8	173.8	163.5	176.0	104.9	162.0	231.5	102.5	106.4	277.3
2000H1	170.8	175.9	165.5	177.3	104.5	167.7	235.9	103.1	107.3	277.5
H2	173.6	176.7	164.1	178.5	102.6	171.5	243.8	102.6	105.6	281.9
2001H1	176.6	178.1	168.3	178.8	99.7	176.0	246.1	102.1	103.5	287.5
H2	177.5	178.7	170.7	179.3	102.3	173.0	<sup>2/</sup>	101.1	105.8	291.1
2002H1	178.9	180.1	172.3	180.5	106.2	171.7	<sup>2/</sup>	99.9	106.9	299.1
H2	180.9	180.4	171.6	181.9	99.1	170.1	266.5	99.2	108.7	305.3
2003H1	183.3	183.2	173.7	184.7	99.2	175.2	<sup>2/</sup>	99.3	111.1	307.0
H2	184.6	185.7	176.0	187.7	97.8	177.7	<sup>2/</sup>	101.5	113.8	308.2
2004H1	187.6	189.2	179.5	192.2	102.6	180.2	274.8	102.6	113.5	309.6
H2	190.2	191.9	180.9	196.3	99.9	184.6	277.0	102.0	113.6	315.2
2005H1	193.2	195.0	184.7	199.9	104.9	188.2	<sup>2/</sup>	98.5	115.8	318.6
H2	197.4	200.6	187.1	210.5	100.0	195.1	<sup>2/</sup>	97.0	112.8	323.3
2006H1	200.6	206.4	191.6	216.9	104.1	201.6	<sup>2/</sup>	100.9	114.3	329.5
H2	202.6	212.3	196.8	228.0	104.7	202.6	<sup>2/</sup>	101.3	113.7	334.7
2007H1	205.709	216.620	202.952	233.606	102.648	204.402	<sup>2/</sup>	102.058	112.887	343.703
H2	208.976	222.388	206.932	243.250	105.642	205.652	309.195	103.087	115.047	351.295
2008H1	214.429	227.334	212.390	246.676	105.917	215.519	317.380	105.600	115.126	361.286

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.

NA Not available

<sup>1/</sup> New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.

<sup>2/</sup> No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.

Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <<http://data.bls.gov/cgi-bin/dsry/>> and BLS Honolulu CPI News Releases and <<http://www.bls.gov/ro9/cpihono.htm>> accessed August 14, 2008.

Table 6

**HONOLULU and U.S. CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U)**  
**[Percentage change from the same period last year]**

Period	U.S.	Honolulu								
		All Items	Food & Beverages	Housing	Apparel	Transportation	Medical Care	Recreation	Edu. & Comm <sup>1/</sup>	Other Goods & Services
1991	4.2	7.2	5.9	8.0	3.3	6.3	11.1	(NA)	(NA)	9.5
1992	3.0	4.8	1.8	5.8	3.3	5.8	6.6	(NA)	(NA)	7.6
1993	3.0	3.2	3.0	3.0	2.0	2.1	8.1	(NA)	(NA)	5.9
1994	2.6	2.7	0.3	3.1	1.9	3.9	4.4	(NA)	(NA)	4.7
1995	2.8	2.2	2.2	1.8	-1.0	3.8	1.8	(NA)	(NA)	3.4
1996	3.0	1.5	-0.1	1.2	0.9	2.8	2.5	(NA)	(NA)	4.5
1997	2.3	0.7	1.7	0.2	-1.0	-0.5	1.1	(NA)	(NA)	5.5
1998	1.6	-0.2	-0.1	-0.6	-4.3	-2.2	4.0	(NA)	(NA)	7.2
1999	2.2	1.0	2.4	-0.1	-6.1	-0.2	2.3	1.1	5.4	7.6
2000	3.4	1.7	1.2	1.2	-1.8	4.6	3.7	0.9	1.9	1.5
2001	2.8	1.2	2.9	0.7	-2.4	2.9	<sup>2/</sup>	-1.2	-1.8	3.4
2002	1.6	1.1	1.4	1.2	1.6	-2.1	<sup>2/</sup>	-2.1	3.1	4.5
2003	2.3	2.3	1.7	2.8	-4.0	3.2	<sup>2/</sup>	0.9	4.4	1.8
2004	2.7	3.3	3.0	4.4	2.7	3.4	<sup>2/</sup>	1.9	0.9	1.6
2005	3.4	3.8	3.2	5.6	1.3	5.0	<sup>2/</sup>	-4.4	0.7	2.8
2006	3.2	5.9	4.5	8.4	1.9	5.5	<sup>2/</sup>	3.4	-0.3	3.5
2007	2.8	4.8	5.5	7.2	-0.2	1.4	<sup>2/</sup>	1.5	0.0	4.6
1996H1	2.8	2.2	0.3	2.0	1.6	3.9	3.4	(NA)	(NA)	2.9
H2	3.1	0.9	-0.5	0.5	0.0	1.7	1.5	(NA)	(NA)	6.0
1997H1	2.6	0.9	1.6	0.3	-0.2	0.9	0.3	(NA)	(NA)	5.4
H2	2.1	0.5	1.7	0.1	-1.8	-1.8	1.9	(NA)	(NA)	5.6
1998H1	1.5	-0.1	0.4	-0.6	-2.8	-2.7	3.2	(NA)	(NA)	9.4
H2	1.6	-0.5	-0.5	-0.7	-5.9	-1.7	4.9	(NA)	(NA)	5.1
1999H1	1.9	0.4	1.5	-0.5	-8.9	-0.6	3.8	-0.1	3.7	7.7
H2	2.5	1.6	3.4	0.2	-2.9	0.1	0.7	2.2	7.2	7.5
2000H1	-3.3	1.9	1.9	1.0	-1.4	3.3	2.1	1.8	4.6	1.3
H2	3.5	1.7	0.4	1.4	-2.2	5.9	5.3	0.1	-0.8	1.7
2001H1	3.4	1.3	1.7	0.8	-4.6	4.9	4.3	-1.0	-3.5	3.6
H2	2.2	1.1	4.0	0.4	-0.3	0.9	<sup>2/</sup>	-1.5	0.2	3.3
2002H1	1.3	1.1	2.4	1.0	6.5	-2.4	<sup>2/</sup>	-2.2	3.3	4.0
H2	1.9	1.0	0.5	1.5	-3.1	-1.7	<sup>2/</sup>	-1.9	2.7	4.9
2003H1	2.5	1.7	0.8	2.3	-6.6	2.0	<sup>2/</sup>	-0.6	3.9	2.6
H2	2.0	2.9	2.6	3.2	-1.3	4.5	<sup>2/</sup>	2.3	4.7	0.9
2004H1	2.3	3.3	3.3	4.1	3.4	2.9	<sup>2/</sup>	3.3	2.2	0.8
H2	3.0	3.3	2.8	4.6	2.1	3.9	<sup>2/</sup>	0.5	-0.2	2.3
2005H1	3.0	3.1	2.9	4.0	2.2	4.4	<sup>2/</sup>	-4.0	2.0	2.9
H2	3.8	4.5	3.4	7.2	0.1	5.7	<sup>2/</sup>	-4.9	-0.7	2.6
2006H1	3.8	5.8	3.7	8.5	-0.8	7.1	<sup>2/</sup>	2.4	-1.3	3.4
H2	2.6	5.8	5.2	8.3	4.7	3.8	<sup>2/</sup>	4.4	0.8	3.5
2007H1	2.5	5.0	5.9	7.7	-1.4	1.4	<sup>2/</sup>	1.1	-1.2	4.3
H2	3.1	4.8	5.1	6.7	0.9	1.5	<sup>2/</sup>	1.8	1.2	5.0
2008H1	4.2	4.9	4.7	5.6	3.2	5.4	<sup>2/</sup>	3.5	2.0	5.1

Data on U.S. CPI are released monthly and Honolulu CPI, twice a year in February and August for the half (H) year previous.

NA Not available

<sup>1/</sup> New indexes as of January 1998. Base period is December 1997. The former "Entertainment" index has been discontinued.

<sup>2/</sup> No data were available or data did not meet U.S. Bureau of Labor Statistics' publication criteria.

Source: U.S. Bureau of Labor Statistics, Consumer Price Index-All Urban Consumers (Current Series) <<http://data.bls.gov/cgi-bin/dsxy/>> and BLS Honolulu CPI News Releases and <<http://www.bls.gov/ro9/cpihono.htm>> accessed August 14, 2008.

## Tourism

In the third quarter of 2008, Hawaii's tourism sector extended the negative growth started in the second quarter of 2008. Both domestic and international visitor arrivals decreased substantially. The average daily visitor census also decreased in both the domestic market and the international market. In the third quarter of 2008, both visitor expenditures and total air capacity decreased substantially; and hotel occupancy rate also decreased substantially compared to the same quarter last year.

The total number of visitors arriving by air to Hawaii decreased 16.6 percent in the third quarter of 2008 compared to the same quarter of 2007. Similarly, total average daily census was down 14.2 percent. In 2007, total visitor arrivals by air decreased 0.4 percent from 2006, while average daily census remained about the same as that in 2006.

Total visitor arrivals on domestic flights decreased 289,425 or 19.4 percent in the third quarter of 2008 from the third quarter in 2007. In 2007, domestic arrivals were up 32,405 or 0.6 percent from that in 2006. Arrivals on international flights decreased 42,891 or 8.4 percent in the third quarter of 2008 compared to the third quarter of 2007. In 2007, international arrivals were down 63,691 or 3.2 percent from 2006.

In terms of major market areas, from the third quarter of 2007 to the third quarter of 2008, arrivals from the U.S. West decreased 194,417 or 21.7 percent, the largest quarter-over-quarter decrease since 1990 for this market; while arrivals from the U.S. East decreased 87,466 or 18.2 percent. This was the fifth consecutive quarterly decline in the U.S. East Market. Similarly, arrivals from Japan decreased 56,199 or 15.1 percent. In the thirteen quarters from the third quarter of 2005 to the third quarter of 2008, only one quarter (2007Q3) had a quarter-over-quarter increase in the Japanese market. In 2007, arrivals from U.S. West were up 24,759 or 0.8 percent from that of 2006; arrivals from the U.S. East were down 51,814 or 2.7 percent; and Japanese arrivals were down 66,453 or 4.9 percent from 2006.

The total average daily visitor census was down 14.2 percent or 27,728 visitors per day in the third quarter of 2008 over the same quarter of 2007. Domestic average daily census decreased 17.3 percent or 27,080 visitors per day, while international average daily census decreased 1.7 percent or 648 visitors per day. In 2007, a 0.9 percent positive growth in domestic daily census was almost completely offset by an 8.5 percent decrease in international daily census. The net result was almost unchanged total average daily visitor census in 2007 over 2006.

Nominal visitor expenditures by air totaled \$2,777.3 million in the third quarter of 2008, down 15.3 percent from the same quarter of 2007. In 2007, visitor expenditures reached \$12,578.3 million, an increase of 2.7 percent from 2006, as compared to 4.9 percent increase in Honolulu's Consumer Price Index.

Total airline capacity, as measured in terms of the number of available seats flown to Hawaii, decreased substantially in the third quarter of 2008 compared to the same quarter of 2007. A 14.9 percent or 289,361 decrease in domestic seats combined with a 11.2 percent or 78,040 decrease in international seats led to a 13.6 percent or 367,401 seats decrease in the number of total available seats for the quarter. For the year 2007, both domestic and international seats were also down.

In the third quarter of 2008, statewide hotel occupancy rate averaged 70.6 percent, down 8.6 percentage points from the same quarter of 2007. For all of 2007, occupancy rate averaged 75.3 percent, down 4.3 percentage points from 2006.

Table 7

**VISITOR ARRIVALS BY AIR**  
**Average Length of Stay, Visitor Days, Average Daily Census**

	2005	2006	2007	% Change 2005-2006	% Change 2006-2007
Total Arrivals	7,416,574	7,461,299	7,368,048	0.6	-1.2
Total	5,313,281	5,495,813	5,494,370	3.4	0.0
Domestic	2,103,293	1,965,486	1,873,678	-6.6	-4.7
International					
Average Length of Stay					
Total	9.1	9.2	9.1	0.6	-0.3
Domestic	9.9	9.8	9.9	-0.9	0.3
International	7.1	7.3	7.0	3.1	-4.0
Visitor Days					
Total	67,687,479	68,477,196	67,407,029	1.2	-1.6
Domestic	52,704,668	54,039,432	54,201,021	2.5	0.3
International	14,982,811	14,437,764	13,206,008	-3.6	-8.5
Average Daily Census					
Total	185,445	187,609	184,677	1.2	-1.6
Domestic	144,396	148,053	148,496	2.5	0.3
International	41,049	39,556	36,181	-3.6	-8.5

Table 8

**HOTEL OCCUPANCY RATE (%)**

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual Average
1982	79.0	65.9	70.9	66.7	70.4
1983	75.2	68.1	71.7	66.5	69.7
1984	84.0	75.6	74.6	75.1	76.0
1985	88.1	69.1	75.0	72.5	76.1
1986	87.0	78.8	79.9	76.8	81.7
1987	88.0	77.1	82.1	77.8	81.1
1988	81.7	75.1	81.3	75.1	78.5
1989	85.9	73.9	81.0	75.7	79.0
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	67.7	71.5
1999	77.0	67.7	75.0	68.7	72.1
2000	79.2	75.2	78.5	73.1	76.0
2001	80.7	70.7	70.3	57.2	69.2
2002	71.7	67.9	72.5	67.1	69.7
2003	74.4	67.1	77.4	71.3	72.6
2004	80.2	75.7	81.5	73.4	77.7
2005	83.8	78.4	84.8	77.2	81.1
2006	83.6	78.2	82.5	74.1	79.5
2007 <sup>1/</sup>	77.4	72.0	79.2	72.5	75.3
2008	78.5	69.0	70.6	(NA)	72.7

Quarterly averages are computed by Hawaii State Department of Business, Economic Development & Tourism from PKF-Hawaii monthly averages through January 1995 and Hospitality Advisors LLC monthly from February 1995.

<sup>1/</sup> Source revised months of 3<sup>rd</sup> Quarter.

Source: Hawaii State Department of Business, Economic Development & Tourism, PKF-Hawaii and Hospitality Advisors LLC

**Construction**

In the third quarter of 2008, the Natural Resources, Mining and Construction sector lost 250 jobs, a decrease of 0.6 percent compared with the same quarter last year. This is the first negative quarter-over-quarter growth since the first quarter of 2002. Nonetheless, at 39,250 jobs for the quarter, construction jobs were still close to the highest level of 39,950 since the sector began in 1990. In the first nine months of 2008, construction jobs increased 1.9 percent or 733 jobs compared to the same period last year.

In the third quarter of 2008, total value of private building authorizations decreased \$206.3 million or 23.0 percent compared with the third quarter of 2007. In the third quarter, the value of new residential permits was down \$65.6 million or 15.9 percent; the value of new commercial and the industrial permits was down \$12.0 million or 8.3 percent; and the value of additions and alterations permits was down \$128.6 million or 37.8 percent, compared to the same quarter last year. In the first nine months of 2008, total private building authorizations decreased \$239.4 million or 8.8 percent compared

with the same period of 2007. In 2007, the total value of private building authorizations decreased \$184.6 million or 4.9 percent compared with 2006, the first year-over-year decline in the total value of new private building authorizations since 1998.

At the county level, in the third quarter of 2008, the value of total private building permits decreased in all counties from the same quarter of 2007. In dollar terms, Honolulu decreased the most at \$90.3 million or 19.2 percent, followed by Maui County at \$89.2 million or 66.0 percent, Kauai County at \$13.3 million or 13.6 percent, and Hawaii County at \$12.9 million or 6.8 percent. For the year of 2007, permit values for Honolulu and Kauai Counties were up 3.1% and 12.4%, respectively, while they were down 25.7% and 1.5% in Maui and Hawaii's Counties, respectively, compared to that of 2006.

Government contracts awarded increased \$96.7 million or 37.9 percent in the third quarter of 2008 compared to the same quarter of 2007. In the first nine months of 2008, government contracts awarded decreased \$72.2 million or 9.6 percent compared with the same period of 2007. State Government Capital Improvement Project (CIP) expenditures were up \$157.1 million or 59.5 percent in the third quarter of 2008 from the same quarter in 2007. For the year of 2007, the value of State Government CIP expenditures increased \$822.3 million or 125.9% over 2006.

The single-family unit authorizations declined 30.4 percent in the third quarter of 2008 on top of a 27.6 percent decrease in the previous two quarters and a 16.7 percent decline in 2007 from 2006. The value of multi-family units authorized was down 23.1 percent for the third quarter of 2008 following a 36.1 percent decrease in the previous two quarters and a 66.9 percent increase in the year of 2007.

The Honolulu Construction Cost Index for Single Family Residences rose 5.5 percent in the third quarter of 2008 over that of 2007, while the comparable index for High-Rise Buildings rose 5.7 percent. For the year of 2007, both indices increased 7.9% from that of 2006.

In the third quarter of 2008, Honolulu's median price for single family resales was \$615,000, a decrease of 5.4 percent from the third quarter of 2007; the median price for condominium resales decreased 2.4 percent to \$322,000 compared to the same quarter in 2007. In the third quarter of 2008, the numbers of single-family unit and condominium unit resales were down 26.1 percent and 25.7 percent, respectively, from the third quarter of 2007.



Table 9

**ESTIMATED VALUE OF COMPLETED CONSTRUCTION NEW PRIVATE  
BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED – Continued**  
(Percentage change from the same period in previous year)

Year	Contracting tax base <sup>1/</sup>	Private Building Authorization <sup>4/</sup>				Government Contracts Awarded
		Total Private Authorizations	Residential <sup>4/</sup>	Commercial & Industrial <sup>2/</sup>	Additions & Alterations	
1996	4.8	-27.0	-34.7	-31.4	-9.5	80.6
1997	-10.4	5.5	11.4	4.6	-1.5	-30.5
1998	2.4	-10.6	-10.5	-22.3	-2.4	11.3
1999	-0.8	25.2	29.5	49.0	6.1	-14.6
2000 <sup>3/</sup>	20.8	14.6	27.3	-19.6	21.1	38.7
2001	4.2	4.8	10.3	33.6	-19.8	-11.7
2002 <sup>4/</sup>	13.5	11.8	26.1	-22.8	8.2	7.3
2003 <sup>4/</sup>	6.1	32.8	20.1	99.8	25.6	-17.6
2004 <sup>4/</sup>	8.5	15.9	32.3	-40.3	28.9	118.6
2005 <sup>4/</sup>	18.9	28.1	27.8	43.0	21.9	-47.6
2006 <sup>4/</sup>	23.5	8.0	-19.8	68.8	53.4	17.8
2007 <sup>4/</sup>	-71.3	-4.9	2.4	-3.8	-16.3	1.8
2006 <sup>4/</sup> 1 Qtr.	28.5	8.4	14.5	25.6	-5.7	39.1
<sup>4/</sup> 2 Qtr.	17.5	24.7	0.2	55.4	69.6	65.3
<sup>4/</sup> 3 Qtr.	21.6	0.1	-30.5	-6.2	128.4	-29.8
<sup>4/</sup> 4 Qtr.	26.5	3.8	-42.3	394.5	47.1	76.6
2007 <sup>4/</sup> 1 Qtr.	16.1	-3.8	-14.3	-2.3	18.4	-39.4
<sup>4/</sup> 2 Qtr.	24.1	19.6	48.1	38.6	-34.4	82.1
<sup>4/</sup> 3 Qtr.	0.2	-14.8	-10.5	-30.1	-11.6	15.7
<sup>4/</sup> 4 Qtr.	8.6	-17.0	-13.4	-8.7	-29.5	-27.9
2008 <sup>4/</sup> 1 Qtr.	-5.3	0.5	-14.3	57.4	10.8	8.9
<sup>4/</sup> 2 Qtr.	-5.0	-3.4	-22.6	-30.5	93.8	-58.2
<sup>4/</sup> 3 Qtr.	(NA)	-23.0	-15.9	-8.3	-37.8	37.9

NA Not available.

First Hawaiian Bank has discontinued compiling Government Contracts Awarded. Hawaii State Department of Business, Economic Development & Tourism has compiled preliminary estimates beginning with the fourth quarter 1997 based on data in *Building Industry*.

<sup>1/</sup> Formerly, this category was "Value of Construction Completed", subject to revision by Hawaii State Department of Taxation.

<sup>2/</sup> Includes hotels.

<sup>3/</sup> Kauai data for November consist of residential data only.

<sup>4/</sup> Beginning in 2002 Kauai data available for residential only.

Source: Hawaii State Department of Taxation; county building departments; U.S. Census Bureau; First Hawaiian Bank; *Building Industry*.

Table 10

**ESTIMATED VALUE OF PRIVATE BUILDING  
CONSTRUCTION AUTHORIZATIONS, BY COUNTY**  
(In thousands of dollars)

Year	State	% Change	City & County of Honolulu	% Change	Hawaii County	% Change	Kauai County	% Change	Maui County	% Change
1996	1,117,760	-27.0	698,697	-28.8	171,017	-36.0	101,981	29.2	146,065	-28.6
1997	1,179,182	5.5	772,825	10.6	155,776	-8.9	97,808	-4.1	152,773	4.6
1998	1,054,281	-10.6	624,226	-19.2	178,220	14.4	88,196	-9.8	163,638	7.1
1999	1,320,218	25.2	706,358	13.2	243,852	36.8	140,846	59.7	229,162	40.0
<sup>1/</sup> 2000	1,512,601	14.6	694,224	-1.7	321,705	31.9	141,313	0.3	355,361	55.1
2001	1,585,739	4.8	682,660	-1.7	380,248	18.2	210,094	48.7	312,738	-12.0
<sup>2/</sup> 2002	1,772,027	11.7	876,051	28.3	449,600	18.2	172,662	-17.8	273,717	-12.5
<sup>2/</sup> 2003	2,351,762	32.7	1,109,568	26.7	619,675	37.8	153,242	-11.2	469,277	71.4
<sup>2/</sup> 2004	2,726,537	15.9	1,320,552	19.0	826,494	33.4	130,660	-14.7	448,830	-4.4
<sup>2/</sup> 2005	3,491,965	28.1	1,364,029	3.3	1,008,388	22.0	288,132	120.5	831,416	85.2
<sup>2/</sup> 2006	3,770,051	8.0	1,625,328	19.2	926,019	-8.2	239,294	-17.0	979,412	17.8
<sup>2/</sup> 2007	3,585,447	-4.9	1,676,232	3.1	912,529	-1.5	268,915	12.4	727,772	-25.7
<sup>2/</sup> 2006 1 Qtr.	766,238	8.4	299,983	-1.6	257,258	54.0	28,616	-77.3	180,380	66.7
<sup>2/</sup> 2 Qtr.	908,136	24.7	406,075	18.4	217,061	13.5	70,557	-18.1	214,443	98.1
<sup>2/</sup> 3 Qtr.	1,051,476	0.1	473,556	53.6	254,057	-31.9	91,856	117.7	232,007	-29.0
<sup>2/</sup> 4 Qtr.	1,044,202	3.8	445,714	9.3	197,642	-28.6	48,265	44.3	352,582	22.3
<sup>2/</sup> 2007 1 Qtr.	737,121	-3.8	353,732	17.9	209,681	-18.5	58,575	104.7	115,132	-36.2
<sup>2/</sup> 2 Qtr.	1,085,692	19.6	540,310	33.1	306,363	41.1	41,091	-41.8	197,928	-7.7
<sup>2/</sup> 3 Qtr.	896,293	-14.8	469,854	-0.8	188,762	-25.7	102,612	11.7	135,064	-41.8
<sup>2/</sup> 4 Qtr.	866,342	-17.0	312,336	-29.9	207,722	5.1	66,637	38.1	279,648	-20.7
<sup>2/</sup> 2008 1 Qtr.	741,141	0.5	309,828	-12.4	243,855	16.3	79,728	36.1	107,730	-6.4
<sup>2/</sup> 2 Qtr.	1,048,550	-3.4	528,685	-2.2	186,956	-39.0	91,645	123.0	241,264	21.9
<sup>2/</sup> 3 Qtr.	690,037	-23.0	379,567	-19.2	175,904	-6.8	88,683	-13.6	45,883	-66.0

<sup>1/</sup> Kauai County data for November consist of residential data only.

<sup>2/</sup> Beginning with 2002, Kauai data available for residential only. Values shown for 2001 are all private authorizations however, percentage change 2001-2002 is based on residential only or 2001Q1 of 32,006; 2001Q2 of 22,290; 2001Q3 of 26,613; 2001Q4 of 53,344 and 2001 of 134,253.

Source: County building departments.

### Federal Government Expenditures in Hawaii

According to the most recent data available, total federal direct expenditures or obligations in Hawaii reached \$13.5 billion in the federal fiscal year ending September 30, 2006, an increase of 6.2% over the previous year. Between federal fiscal years 1997 and 2006, the annual average growth rate for federal expenditures was about 5.7%. Overall, federal government accounted for about 13.6% of State GDP in Hawaii in 2006, much of which is defense-related.

The latest data from the U.S. Department of Commerce indicate that the total earnings of federal government personnel in the second quarter of 2008 increased 6.8% compared to the same quarter of 2007. Total military earnings and total federal civilian earnings increased 8.3% and 4.4%, respectively for the quarter.

Military spending for construction in Hawaii for the federal fiscal year 2009 which begins on

October 1, 2008 would total \$544 million under the \$3.1 trillion budget request President Bush unveiled on February 4, 2008 and is about the same as the federal fiscal year 2008 allotment. Appropriations for federal fiscal year 2008 defense projects in Hawaii total nearly \$742 million. This includes a military construction program of \$533.6 million, and \$208 million for defense-related projects. In addition, \$5.5 million is to be provided to improve infrastructure and educational programs for Hawaii's public schools with high enrollments of military children. Further, the federal education budget includes \$48.2 million in impact aid funding for Hawaii's public schools. Ongoing programs to privatize construction, renovation and operation of military housing will contribute an estimated \$3 billion over the next decade.

### **Banks and Other Financial Institutions**

As of December 31, 2007, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies, were reported at \$29.64 billion, a 2.59% increase from December 31, 2006. The five State-chartered banks accounted for \$28.94 billion of such assets.

### **Transportation**

Because the State's population resides on seven islands, the State is dependent on fast, efficient, low-cost transportation, both interstate and intrastate.

***Sea Transportation.*** The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, sea transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 2005, 2006 and 2007 amounted to 20.2 million short tons, 20.7 million short tons and 21.5 million short tons, respectively.

The Harbors System is comprised of ten commercial harbors, which are operated and maintained by the Department of Transportation as a single integrated system for financial and management purposes. The harbors are: (1) Honolulu Harbor, Kalaeloa Barbers Point Harbor and Kewalo Basin on the island of Oahu, comprising the Oahu District; (2) Hilo Harbor and Kawaihae Harbor on the island of Hawaii, comprising the Hawaii District; (3) Nawiliwili Harbor and Port Allen Harbor on the island of Kauai, comprising the Kauai District; (4) Kahului Harbor and Hana Harbor on the island of Maui, Kaunakakai Harbor on the island of Molokai, and Kaunapali Harbor on the island of Lanai, comprising the Maui District. The Harbors System currently manages Kewalo Basin for its landowner, the Hawaii Community Development Authority. Act 200, SLH 2008, authorized the transfer of Hana Harbor on the island of Maui to the jurisdiction of the Harbors System, effective July 1, 2008.

The State uses nine harbors, with the exception of Kewalo Basin and Hana Harbor, to facilitate the movement of goods from and between the mainland, foreign and inter-island ports. The number of commercial vessels entering all ports was 9,714 in fiscal year 2005, 10,465 in fiscal year 2006, and 10,541 in fiscal year 2007.

Honolulu Harbor is the hub of the Statewide Commercial Harbors System. It serves as a major distribution point of overseas cargo to the neighbor islands and is the primary consolidation center for the export of overseas cargo. Overseas and inter-island cargo tonnage handled through Honolulu Harbor was 9.8 million short tons in fiscal year 2005, 9.8 million short tons in fiscal year 2006, and 10.2 million short tons in fiscal year 2007. The State manages, maintains and operates the statewide harbors system to provide for the efficient movement of cargo and passengers.

Hawaii has experienced growth in cruise ship passenger volumes in recent years. The number of

cruise ship visitor arrivals has increased from 415,967 in 2006 to 501,698 in 2007, a 20.6% increase. However, as described in the next paragraph, two cruise ships were redeployed away from the Hawaii market during the first half of 2008.

Norwegian Cruise Lines America ("NCLA") homeported three cruise ships, the Pride of Hawaii, the Pride of America and the Pride of Aloha, providing the State with year-round inter-island service. In February 2008, NCLA withdrew the Pride of Hawaii from Hawaii service to operate in Europe as the Norwegian Jade. In May, 2008, NCLA deployed the Pride of Aloha to Asia, leaving the Pride of America to serve the Hawaii market. NCLA and other foreign cruise ships utilize the new cruise passenger terminal constructed at Pier 2, Honolulu Harbor.

Hawaii Superferry, Inc. ("HSF"), a private ferry operator, operates a large-capacity roll on/roll off high-speed daily ferry service for the transport of passengers and vehicles, including cars, trucks and commercial vehicles between Honolulu and Kahului Harbors. HSF is currently constructing a second vessel scheduled to arrive in Hawaii in May 2009. With both vessels, HSF plans to provide daily service between Honolulu, Kahului and Kawaihae Harbors. Future service to Nawiliwili Harbor, Kauai, is under consideration by HSF.

After HSF commenced service on August 26, 2007, the Hawaii Supreme Court ruled that an environmental assessment must be performed with respect to certain improvements at Kahului Harbor intended for use by HSF. A related circuit court decision ruled that HSF could not operate at Kahului Harbor until an environmental assessment was completed. These court actions halted HSF operations until the Legislature convened a special session and enacted Act 2, Second Special Session 2007, on November 2, 2007 to allow large-capacity ferry vessel companies, such as HSF, to operate under certain conditions while the required environmental reviews are conducted. Daily service between Honolulu and Kahului Harbors re-commenced on December 13, 2007. In accordance with Act 2, the Department of Transportation is preparing the *Statewide Large-Capacity Inter-Island Ferry Environmental Impact Statement* (EIS).

Act 200, SLH 2008, was enacted to authorize a statewide Harbors Modernization Plan to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. Act 200 also designated the Aloha Tower Development Corporation as the entity responsible for the management and implementation of the Harbors Modernization Plan in partnership with the Department of Transportation. Act 200 authorizes the Department of Transportation to issue harbor revenue bonds to finance the improvements. The cost of the Plan, originally estimated at \$842 million, was recently revised to \$618 million.

**Air Transportation.** The State operates and maintains 15 airports on six islands within the State. The principal airport which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls for 4,579 vehicles, HNL is the most important in the State airports system. The airfield at Barber's Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July 1999.

Kahului Airport on the island of Maui, Hilo International Airport (renamed from General Lyman Field) at Hilo and Kona International Airport at Keahole (both on the island of Hawaii), and Lihue

Airport on the island of Kauai, also service direct flights to and from the continental United States.

According to data from the Airports Council International, HNL is the 60th busiest air terminal in the world, ranking 25th in the United States in total passengers serviced in 2007. In calendar year 2007, HNL recorded 310,607 aircraft operations. In addition, HNL passenger counts for calendar year 2007 increased by 6.5% to 21,346,026.

Until March 31, 2008, inter-island air travel in Hawaii was primarily served by Aloha Airlines and Hawaiian Airlines. In June 2006, Mesa Air Group began inter-island service as go! Airlines. On March 20, 2008, Aloha Airlines, Inc. filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Hawaii. On March 31, 2008, Aloha Airlines ceased all passenger operations. On April 29, 2008, Aloha Airlines, which had handled approximately 85% of Hawaii's inter-island air cargo, ceased all air cargo operations and well as maintenance cleaning services. Almost immediately thereafter, such operations were taken over by Aeko Kula, Inc. (cargo) and Aloha Contract Services LLC (maintenance services). Both the bankruptcy of Aloha Airlines and the rising cost of fuel have led to decreased statewide enplanement activities of 10%, comparing May 2007 and 2008.

In October 2007, the Airports Division and a majority of the airlines executed the First Amended Lease Extension Agreement effective January 1, 2008. The terms and conditions of the Airport-Airline Lease were amended to reflect a rate-making methodology that recovers costs of specific Airports System facilities from the airlines that directly use them. An Airport System Support Charge Cost Center is set up to serve as the residual cost center to ensure Airport System operating revenues are sufficient to cover Airport System operating costs.

The Airports Division is in the process of implementing a modernization program which will include significant capital improvements for several of the major airports in the State, including Honolulu, Kahului, Kona and Lihue. The program is currently estimated to cost in excess of \$2.0 billion through 2021 and will be paid for from a variety of sources including cash, grants, passenger facility charges and revenue bonds.

**Land Transportation.** In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,234.75 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 117.64 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 932.27 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

The following table shows the motor vehicle registrations in the State for the years 2001 and 2007, inclusive.

**Table 11**

**MOTOR VEHICLE REGISTRATION**

<b>YEAR</b>	<b>VEHICLES</b>
2001	992,563
2002	1,013,594
2003	1,057,623
2004	1,098,447
2005	1,149,403
2006	1,157,027
2007	1,167,240

**Education**

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2008-2009 school year, system enrollment decreased from a total of 178,369 in the 2007-2008 school year to a total of 177,871 in 285 K-12 public schools. The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Within the total student count, the number of students in Department of Education schools has decreased, while the number of charter school students has increased.

The University of Hawaii was established in 1907 on the model of the American system of land-grant universities created initially by the Morrill Act of 1862. In the 1960s and 1970s, the University was developed into a system of accessible and affordable campuses. These institutions currently include:

- a research university at Manoa, offering a comprehensive array of undergraduate, graduate and professional degrees through the doctoral level, including law and medicine;
- a comprehensive, primarily baccalaureate institution at Hilo, a College of Pharmacy with a four-year curriculum leading to a Doctor of Pharmacy degree, seated its inaugural class in the fall of 2007; offering professional programs based on a liberal arts foundation and selected graduate degrees;
- a baccalaureate institution at West Oahu, offering degrees in the liberal arts and professional studies; and
- a system of seven open-door community colleges spread across the islands of Kauai, Oahu, Maui and Hawaii, offering quality liberal arts and workforce programs.

In the fall of 2006, 49,990 students attended the University of Hawaii system, 20,357 of them on the Manoa Campus. In the fall of 2007, 50,454 students attended the University of Hawaii system, 20,051 of them on the Manoa Campus.

## State Housing Programs

Since 1970, the State has undertaken a program to alleviate the shortage of housing in the State under a comprehensive housing law. The law recognizes that all phases of housing are related to one another and consequently attempts to cover all such phases, from construction through permanent financing, and also attempts to solve or mitigate the housing problem by using both the public and private sectors. To this end the State has undertaken, among other things, facilitating the development of real property and the construction of dwelling units thereon in partnerships with qualified developers and contractors. The State's participation in such partnerships has consisted of construction financing (interim financing), including land acquisition. Other State efforts include construction and permanent financing for developers of residential housing; development by the State itself of single and multifamily residential housing units on land owned by the State or on land purchased or to be purchased for such purpose or on land to be leased from others; and loans to qualified residents of the State who are qualified purchasers of affordable dwelling units.

The State also administers federal and state housing assistance programs for low-income families. Included are the management of low-rent public housing units, the administration of the Section 8 tenant-based housing assistance program and other federal and State programs intended to provide very low to low-income residents with safe, decent and sanitary housing.

The State housing programs previously were carried out by the Housing and Community Development Corporation of Hawaii (the "HCDCH"). On July 1, 2006, pursuant to Act 196, SLH 2005, as amended by Act 180, SLH 2006, the HCDCH was bifurcated into the Hawaii Public Housing Authority (the "HPHA") and the Hawaii Housing Finance and Development Corporation (the "HHFDC"). The assets, obligations and functions of the HCDCH were transferred to the HHFDC and to the HPHA, as provided by such Acts. The HHFDC performs the function of housing finance and development. The HHFDC is empowered to raise funds through the issuance of revenue bonds and to use such funds for housing purposes. The bonds are special obligations of the HHFDC and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State. The HPHA performs the function of developing and maintaining public housing.

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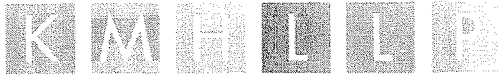
APPENDIX D

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007  
AND INDEPENDENT AUDITORS' REPORT

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**State of Hawaii,  
Department of Transportation,  
Highways Division**

Financial Statements  
Fiscal Year Ended June 30, 2007



A Hawaii Limited Liability Partnership

## Independent Auditor's Report

Office of the Auditor  
State of Hawaii

We have audited the accompanying financial statements of the governmental activities and each major fund of the Highways Division of the Department of Transportation of the State of Hawaii (Division), as of and for the year ended June 30, 2007, which collectively comprise the Division's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Division are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of Hawaii that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2007, and the changes in its financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Division, as of June 30, 2007, and the respective changes in financial position and the respective budgetary comparison of the State Highway Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2008, on our consideration of the Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 8 through 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii  
March 31, 2008

**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

The following Management's Discussion and Analysis ("MD&A") of the Highways Division, Department of Transportation, State of Hawaii ("Highways Division") activities and financial performance provides the reader with an introduction and overview to the financial statements of the Highways Division for the year ended June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Territorial Highway Department was created by the Territorial Legislature on April 24, 1925 by Act 78 to qualify Hawaii for participation in the Federal-Aid Program. The purpose of the Federal-Aid Program was to ensure the development of an integrated network of highways in the United States. Congress defined that the Federal government would provide the funds for construction on a matching contribution basis while the State or its political subdivisions would administer the highway.

The Department of Transportation was created in 1959 by the Hawaii State Government Reorganization Act. In creating the new department, the legislature transferred the responsibilities of the old Highway Department to the Highways Division of the new Department of Transportation.

The mission of the Highways Division is to facilitate the rapid, safe, and economical movement of people and goods within the State by providing, maintaining, and operating land transportation facilities and support services. The major goals of the Highways Division are to plan, design, construct, and maintain highway facilities. In addition, the Highways Division, together with the Statewide Transportation Planning Office, implements innovative and diverse approaches to congestion management to increase the efficiency of the transportation system.

The Highways Division is managed by the Highways Division Administrator. Each island in the system is managed by a district manager with the exception of the Maui District, which includes the islands of Molokai and Lanai. The Staff Services Office, headed by the Administrative Services Officer, is responsible for personnel, budget, procurement, financial management, method, standards and evaluation functions of the Highways Division. Other major functional operations within the Highways Division include Engineering Services Office, Landscape Services Office, Motor Vehicle Safety Office, Planning Branch, Design Branch, Rights-of-Way Branch, Materials Testing and Research Branch, Construction and Maintenance Branch, and Traffic Branch.

**STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
(CONTINUED)**

**FINANCIAL HIGHLIGHTS**

**Government-wide Financial Statements**

The assets of the Highways Division exceeded its liabilities at June 30, 2007 by \$5.4 billion. Of this amount, \$285 million is considered unrestricted and may be used to meet the Highways Division's ongoing obligations.

The current year change in net assets was a decrease of \$133 million. This resulted from an excess of expenses over revenues of \$116 million and a transfer of \$17 million to other State departments for debt service payments on general obligation bonds. The excess of expenses over revenues was significantly impacted by depreciation expense of \$231 million.

**Fund Financial Statements**

At June 30, 2007, the Highways Division's Governmental Funds reported a combined ending fund balance of \$314 million. The combined fund balance decreased by \$57 million from the prior year's ending fund balance.

The Highways Division's State Highway Fund (SHF), the major operating fund, reported an ending fund balance of \$236 million, of which \$97 million is considered unreserved. There was a \$21 million decrease in fund balance for the year ended June 30, 2007.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Highways Division's basic financial statements. The Highways Division's basic financial statements consist of three sections: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. These sections are described as follows:

**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED**  
**(CONTINUED)**

**Government-wide Financial Statements**

The government-wide statements report information about the Highways Division as a whole in a manner similar to private-sector business. The statements provide both long-term and short-term information about the Highways Division’s overall financial status. They are prepared using the economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses connected with the fiscal year, regardless of when cash is received or paid. The government-wide financial statements include the following two statements:

The Statement of Net Assets presents all of the Highways Division’s assets and liabilities, with the difference between the two reported as “net assets.” Over time, increases or decreases in the Highways Division’s net assets are an indicator of whether its financial health is improving or deteriorating.

The Statement of Activities presents information showing how the Highways Division’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Highways Division’s activities are considered governmental activities, and are primarily funded by taxes, charges for services, and intergovernmental revenues.

The government-wide financial statements can be found on pages 20 to 22 of this report.

**Fund Financial Statements**

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Highways Division, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the Highways Division are considered governmental funds.

The fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Fund financial statements are prepared using the current financial resources measurement focus and the modified-accrual basis of accounting. These statements provide a detailed short-term view of the Highways Division’s finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Highways Division.



**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED**  
**(CONTINUED)**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Highways Division’s near-term financing decisions. A reconciliation to facilitate this comparison between Governmental Funds financial statements and government-wide financial statements is included on pages 25 and 28 of this report.

The Highways Division has three governmental funds, all of which are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The Highways Division’s three governmental funds are the SHF (a Special Revenue Fund), the Debt Service Fund, and the Capital Projects Fund.

The basic Governmental Funds financial statements can be found on pages 23 through 27 of this report.

**Statement of Revenues and Expenditures—Budget and Actual—State Highway Fund (Non-GAAP Budgetary Basis)**

The governmental funds financial statements are followed by a budgetary comparison statement, which compares the SHF’s original budget, final budget, and actual amounts prepared on a budgetary basis. A reconciliation between the actual SHF revenues and expenditures compared to the SHF revenues and expenditures prepared for budgetary purposes is included in Note 3 to the financial statements.

The Statement of Revenues and Expenditures—Budget and Actual—State Highway Fund (Non-GAAP Budgetary Basis) can be found on page 29 of this report.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the governmental funds financial statements. The notes to the financial statements can be found on pages 31 through 54 of this report.

**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
 (CONTINUED)

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of the Highways Division's financial position. The Highways Division's assets exceeded liabilities by \$5.4 billion and \$5.5 billion at June 30, 2007 and 2006, respectively.

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current and other assets	\$ 390,955,786	\$ 437,366,791
Capital assets - net	<u>5,342,690,979</u>	<u>5,434,538,889</u>
Total assets	<u>\$ 5,733,646,765</u>	<u>\$ 5,871,905,680</u>
<b>Liabilities</b>		
Current liabilities	\$ 74,361,452	\$ 63,565,416
Long-term liabilities	<u>293,697,860</u>	<u>309,502,296</u>
Total liabilities	<u>368,059,312</u>	<u>373,067,712</u>
<b>Net Assets</b>		
Invested in capital assets—net of related debt	5,065,373,798	5,116,016,933
Restricted	14,885,000	14,295,000
Unrestricted	<u>285,328,655</u>	<u>368,526,035</u>
Total net assets	<u>5,365,587,453</u>	<u>5,498,837,968</u>
Total liabilities and net assets	<u>\$ 5,733,646,765</u>	<u>\$ 5,871,905,680</u>

The largest portion of the Highways Division's net assets (94 percent and 93 percent at June 30, 2007 and 2006, respectively) reflects its investment in capital assets (e.g., land and land improvements, buildings and improvements, vehicles and equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Highways Division uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Highways Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED**  
**(CONTINUED)**

An additional portion of the Highways Division’s net assets (0.2 percent at June 30, 2007 and 2006) represents resources that are subject to restrictions as to how they may be used. This primarily relates to net assets reserved for payment of the Highways Division’s revenue bond debt service. The remaining balance of unrestricted net assets may be used to meet the Highways Division’s on-going obligations to citizens and creditors.

Capital assets – net decreased by \$92 million from June 30, 2006 to June 30, 2007 and by \$124 million from June 30, 2005 to June 30, 2006 primarily because depreciation expense more than offset additions to construction in progress.

Long-term liabilities decreased by \$16 million from June 30, 2006 to June 30, 2007 and \$15 million from June 30, 2005 to June 30, 2006 primarily due to principal payments on revenue bonds.

**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED  
(CONTINUED)

**Statement of Activities**

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Highways Division’s net assets changed during the year.

	<u>2007</u>	<u>2006</u>
EXPENSES:		
Program expenses:		
Operations and maintenance	\$ 158,744,838	\$ 143,373,361
Administration of Highways Division	34,142,406	25,600,658
Surcharge on gross receipts	8,091,700	7,911,833
Motor Vehicle Safety Office	8,710,955	8,852,745
Capital projects	6,949,735	13,621,234
Depreciation expense	231,003,194	232,285,626
Debt service/interest expense	12,061,575	13,232,173
Total expenses	<u>459,704,403</u>	<u>444,877,630</u>
REVENUES:		
Program revenues:		
Charges for services	25,400,271	26,825,112
Operating grants and contributions	46,974,987	43,629,731
Capital grants and contributions	86,338,003	77,405,713
Total program revenues	<u>158,713,261</u>	<u>147,860,556</u>
General revenues:		
Taxes	165,384,250	164,945,006
Interest income	18,238,962	14,191,947
Other	1,487,783	1,416,904
Total general revenues	<u>185,110,995</u>	<u>180,553,857</u>
Total revenues	<u>343,824,256</u>	<u>328,414,413</u>
Decrease in net assets before transfers (Carried forward)	<u>\$ (115,880,147)</u>	<u>\$ (116,463,217)</u>

**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED**  
**(CONTINUED)**

	<u>2007</u>	<u>2006</u>
Decrease in net assets before transfers (Brought forward)	\$ (115,880,147)	\$ (116,463,217)
Transfers	<u>(17,370,368)</u>	<u>(17,039,677)</u>
Decrease in net assets	(133,250,515)	(133,502,894)
Net Assets, beginning of year	<u>5,498,837,968</u>	<u>5,632,340,862</u>
Net Assets, end of year	<u>\$ 5,365,587,453</u>	<u>\$5,498,837,968</u>

Program revenues, which comprise charges for services as well as operating and capital grants, accounted for 46 percent and 45 percent of total revenues in fiscal years 2007 and 2006, respectively. The largest components of program revenues (84 and 82 percent for fiscal years 2007 and 2006, respectively) resulted from operating and capital grants and contributions from the Federal Highway Administration for the maintenance and construction of roads and other infrastructure.

Revenues not classified as program revenues are considered general revenues and comprise primarily taxes and interest earnings. Taxes represented 89 percent and 91 percent of general revenues for both fiscal years 2007 and 2006.

The fiscal year 2007 decrease in net assets of \$133 million resulted from the excess of expenses over revenues of \$116 million due primarily to depreciation expense of \$231 million and a transfer out of \$17 million to other State departments for the payment of debt service on general obligation bonds.

The fiscal year 2006 decrease in net assets of \$134 million resulted from the excess of expenses over revenues of \$116 million due primarily to depreciation expense of \$232 million and a transfer out of \$17 million to other State departments for the payment of debt service on general obligation bonds.

**FINANCIAL ANALYSIS OF THE HIGHWAYS DIVISION’S GOVERNMENTAL FUNDS**

As noted earlier, the Highways Division uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

The focus of the Highways Division’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Highways Division’s financing requirements.

**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED**  
**(CONTINUED)**

At June 30, 2007, the Highways Division’s Governmental Funds reported combined ending fund balances of \$314 million, representing a decrease of \$57 million from the prior year. A large portion of the fund balance is reserved to indicate that it is not available for new spending primarily because it has already been committed to liquidate contracts and purchase orders of the prior period.

At June 30, 2006, the Highways Division’s Governmental Funds reported combined ending fund balances of \$372 million, representing a decrease of \$24 million from the prior year. Approximately \$3 million of this amount constitutes unreserved fund balance.

The SHF is the major operating fund of the Highways Division. The State imposes taxes, fees, and charges relating to the operation and use of motor vehicles on the public highways of the State. These funds are deposited into the SHF established under Section 248-8, Hawaii Revised Statutes (“HRS”). Monies deposited in the SHF are used for acquisition, planning, design, construction, operation, repair, and maintenance of the State Highway System.

The current taxes, fees, and charges deposited to the SHF consist of: (1) the highway fuel taxes; (2) vehicle registration fees; (3) the vehicle weight tax; and (4) the rental motor vehicle and tour vehicle surcharge taxes. Together, these taxes, fees and charges accounted for most of the receipts of the SHF. Other sources of revenues include interest earnings on monies previously credited to the SHF, vehicle weight tax penalties, certain rental income from State Highway System properties, passenger motor vehicle inspection charges, overweight permits, sales of surplus lands, commercial license fees, and other miscellaneous revenues.

At June 30, 2007, the total fund balance of the SHF was \$236 million, of which \$97 million was unreserved. As a measure of the SHF’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures (including transfers out). Unreserved fund balance represents 35 percent of total fund expenditures (including transfers out), while total fund balance represents 85 percent of the same amount.

The SHF’s fund balance decreased by \$21 million in the current year compared to a \$9 million decrease in the prior year. During the current year, the Highways Division collected more revenues but also expended more for operations and maintenance.

At June 30, 2006, the total fund balance of the SHF was \$257 million, of which \$150 million was unreserved. Unreserved fund balance represented 57 percent of total fund expenditures (including transfers out), while total fund balance represented 98 percent of the same amount.

**STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED  
(CONTINUED)**

The SHF's fund balance decreased by \$9 million in fiscal year 2006. During that fiscal year, the Highways Division also collected more revenues but also expended more on operations and maintenance.

The Debt Service Fund ("DSF") is used to track the revenue bond debt service for the Highways Division. Debt service requirements are transferred from the SHF. The decrease in debt service expense on the government-wide financial statements from \$13 million in fiscal year 2006 to \$12 million in fiscal year 2007 is attributable to decreased interest expense.

The Capital Projects Fund ("CPF") accounts for the Highways Division's capital improvements program. At June 30, 2007, the CPF had a total fund balance of \$78 million, including an unreserved fund deficit of \$270 million. The CPF fund balance decreased by \$36 million in fiscal year 2007 compared to a \$15 million decrease in the prior year. The change from the prior year was due primarily to an increase in contract encumbrances in the current year.

**STATE HIGHWAY FUND BUDGETARY HIGHLIGHTS**

The final SHF budget had total revenues of \$203 million which is equal to the original budget. The actual revenues on a budgetary basis were \$8 million higher than the final budget, primarily due to an increase in interest income.

Expenditures on the budgetary actual basis were \$13 million lower than the final budgeted amounts. The difference was due primarily to significant repairs and maintenance work that was budgeted being deferred into future periods.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Highways Division's investment in capital assets as of June 30, 2007 amounts to \$5.34 billion, net of accumulated depreciation of \$3.7 billion. This investment in capital assets includes land and land improvements, buildings and building improvements, vehicles and equipment, infrastructure assets and construction in progress. Infrastructure assets consist of land, roadways, tunnels and bridges, and miscellaneous roadway components.

During fiscal year 2007, the Highways Division put out 43 projects to bid with a contract amount of approximately \$251 million. There were 13 projects on Oahu, 10 projects on Hawaii, 9 projects on Maui, (includes Molokai and Lanai), and 11 projects on Kauai.

**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED**  
**(CONTINUED)**

During fiscal year 2006, the Highways Division put out 12 projects to bid with a contract amount of approximately \$150 million. There were 5 projects on Oahu, 3 projects on Maui, (includes Molokai and Lanai), and 4 projects on Kauai.

At June 30, 2007, the Highways Division had \$348 million in contracts encumbered in the Capital Projects Fund. Such amount represents some projects still in the in-house planning stage, and some contracts awarded in fiscal year 2007, with construction expected to start in fiscal year 2008.

At June 30, 2006, the Highways Division had \$261 million in contracts encumbered in the Capital Projects Fund. Such amount represents some projects still in the in-house planning stage, and some contracts awarded in fiscal year 2006, with construction expected to start in fiscal year 2007.

Additional information on the Highways Division’s capital assets can be found in Note 7 to the attached financial statements.

**Long-Term Debt**

As of June 30, 2007, \$279 million in Highway Revenue Bonds were outstanding, compared to \$295 million as of June 30, 2006.

See Note 9 for additional information on Highway Revenue Bonds.

As of June 30, 2007, \$67 million in State of Hawaii General Obligation Bonds were outstanding, compared to \$81 million as of June 30, 2006. These bonds are considered general obligations of the State, and not the Highways Division. Accordingly, no amounts are recorded by the Highways Division for these liabilities. The Highways Division makes debt service payments to repay principal and interest on these amounts. The payments for the fiscal year ended June 30, 2007 amounted to \$17 million, and the amount was recorded as an other financing use and transfer out in the financial statements.

See Note 10 for further information on general obligation bonds.

The Highways Division’s revenue bond rating by Moody’s Investors Service, Inc., Standard & Poor’s Corporation, and Fitch IBCA, Inc. are “Aa3,” “AA+,” and “AA-,” respectively.



**STATE OF HAWAII**  
**DEPARTMENT OF TRANSPORTATION – HIGHWAYS DIVISION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED**  
**(CONTINUED)**

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies, and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward, suspended, or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. The State undertakes no responsibility to oppose any such revision, suspension, or withdrawal.

Additional information on the Highways Division's long-term liabilities can be found in Note 8 to the attached financial statements.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Highways Division's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Gerald Dang, Administrative Services Officer, State of Hawaii, Department of Transportation, Highways Division, 869 Punchbowl Street, Honolulu, Hawaii, 96813.

## State of Hawaii, Department of Transportation, Highways Division

### Statement of Net Assets

June 30, 2007

<u>Assets</u>	<u>Governmental Activities</u>
Cash	\$ 333,041,152
Receivables, net of allowance for doubtful accounts:	
Due from U.S. Government	19,251,842
Due from City and Counties	4,998,207
Due from State of Hawaii	3,074,005
Other receivables	611,453
Prepaid Expenses	38,663
Restricted Cash:	
Revenue bond debt service	21,095,141
Security deposits	6,749,968
Bond Issuance Costs, net of accumulated amortization	1,456,069
Other Assets	639,286
Capital Assets, net of accumulated depreciation	5,342,690,979
Total assets	<u>\$ 5,733,646,765</u>

See accompanying notes to the basic financial statements.

# State of Hawaii, Department of Transportation, Highways Division

## Statement of Net Assets

June 30, 2007

<u>Liabilities and Net Assets</u>	
	<u>Governmental Activities</u>
Accounts Payable	\$ 6,335,836
Accrued Payroll	3,397,867
Contracts Payable:	
Current portion	27,072,559
Retained percentage	8,989,932
Payable from Restricted Assets:	
Matured bonds and interest payable	21,095,141
Security deposits	6,749,968
Other Liabilities	720,149
Long Term Liabilities:	
Due within one year:	
Workers' compensation payable	580,730
Accrued vacation payable	2,621,275
Due after one year:	
Workers' compensation payable	4,050,317
Accrued vacation payable	7,672,288
Revenue Bonds Payable	278,773,250
Total liabilities	<u>368,059,312</u>
Net Assets:	
Invested in capital assets, net of related debt	5,065,373,798
Restricted for current portion of revenue bonds	14,885,000
Unrestricted	285,328,655
Total net assets	<u>5,365,587,453</u>
Total liabilities and net assets	<u>\$ 5,733,646,765</u>

See accompanying notes to the basic financial statements.

# State of Hawaii, Department of Transportation, Highways Division

## Statement of Activities

For the Fiscal Year Ended June 30, 2007

	<u>Governmental Activities</u>
Operations and Maintenance:	
Oahu highways and services	\$ 88,197,117
Hawaii highways and services	24,294,852
Maui highways and services	17,831,463
Kauai highways and services	10,452,813
Molokai highways and services	1,027,014
Lanai highways and services	255,163
Pass through for County highways and services	16,686,416
Administration of Highways Division	34,142,406
Surcharge on Gross Receipts	8,091,700
Motor Vehicle Safety Office	8,710,955
Capital Projects	6,949,735
Depreciation Expense	231,003,194
Interest Expense	<u>12,061,575</u>
Total expenses	<u>459,704,403</u>
Program Revenues:	
Charges for services:	
Vehicle registration fees	20,242,953
Other fees and permits	2,916,262
Penalties and fines	1,266,243
Rentals	974,813
Operating grants and contributions	46,974,987
Capital grants and contributions	<u>86,338,003</u>
Total program revenues	<u>158,713,261</u>
General Revenues:	
Taxes:	
State fuel taxes	85,618,275
Rental motor and tour vehicle surcharge taxes	46,988,960
Vehicle weight taxes and penalties	32,777,015
Interest income	18,238,962
Non-imposed fringe benefits	<u>1,487,783</u>
Total general revenues	<u>185,110,995</u>
Deficiency of revenues over expenditures	<u>(115,880,147)</u>
Transfers	<u>(17,370,368)</u>
Change in net assets	<u>(133,250,515)</u>
Net Assets:	
Beginning of year	<u>5,498,837,968</u>
End of year	<u><u>\$ 5,365,587,453</u></u>

See accompanying notes to the basic financial statements.

## State of Hawaii, Department of Transportation, Highways Division

Balance Sheet – Governmental Funds

June 30, 2007

<u>Assets</u>	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Cash	\$ 163,264,941	\$ -	\$ 169,776,211	\$ 333,041,152
Receivables, net of allowance for doubtful accounts:				
Due from Capital Projects Fund	81,990,037	-	-	81,990,037
Due from U.S. Government	2,194,812	-	17,057,030	19,251,842
Due from City and Counties	4,998,207	-	-	4,998,207
Due from State of Hawaii	3,074,005	-	-	3,074,005
Other receivables	611,453	-	-	611,453
Prepaid Expenses	-	-	38,663	38,663
Restricted Cash:				
Revenue bond debt service	-	21,095,141	-	21,095,141
Security deposits	6,749,968	-	-	6,749,968
Total assets	<u>\$ 262,883,423</u>	<u>\$ 21,095,141</u>	<u>\$ 186,871,904</u>	<u>\$ 470,850,468</u>

See accompanying notes to the basic financial statements.

## State of Hawaii, Department of Transportation, Highways Division

Balance Sheet – Governmental Funds

June 30, 2007

<u>Liabilities and Fund Balances</u>	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Accounts Payable	\$ 4,546,987	\$ -	\$ 1,788,849	\$ 6,335,836
Accrued Payroll	3,397,867	-	-	3,397,867
Contracts Payable:				
Current portion	7,685,155	-	19,387,404	27,072,559
Retainage payable	3,741,292	-	5,248,640	8,989,932
Payable from Restricted Assets:				
Matured bonds and interest payable	-	21,095,141	-	21,095,141
Security deposits	6,749,968	-	-	6,749,968
Due to State Highway Fund	-	-	81,990,037	81,990,037
Other Liabilities	<u>720,149</u>	<u>-</u>	<u>-</u>	<u>720,149</u>
Total liabilities	<u>26,841,418</u>	<u>21,095,141</u>	<u>108,414,930</u>	<u>156,351,489</u>
Fund Balances:				
Reserved for:				
Encumbrances	139,301,437	-	348,124,593	487,426,030
Prepaid expenses	-	-	38,663	38,663
Unreserved	<u>96,740,568</u>	<u>-</u>	<u>(269,706,282)</u>	<u>(172,965,714)</u>
Total fund balances	<u>236,042,005</u>	<u>-</u>	<u>78,456,974</u>	<u>314,498,979</u>
Total liabilities and fund balances	<u>\$ 262,883,423</u>	<u>\$ 21,095,141</u>	<u>\$ 186,871,904</u>	<u>\$ 470,850,468</u>

See accompanying notes to the basic financial statements.

## State of Hawaii, Department of Transportation, Highways Division

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2007

Total Fund Balances - Governmental Funds		\$ 314,498,979
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the Governmental Funds financial statements. These assets consist of:		
Governmental capital assets	9,048,903,338	
Less accumulated depreciation	<u>(3,706,212,359)</u>	
		5,342,690,979
Bonds issuance costs and deferred amount on bond refunding are recorded as expenditures in Governmental Funds financial statements when incurred. However, in Government Wide financial statements, such amounts are recorded as a deferred charge and amortized over the life of the related bonds		1,456,069
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds financial statements:		
Accrued vacation payable	(10,293,563)	
Accrued workers' compensation payable	(4,631,047)	
Revenue bonds payable	<u>(278,773,250)</u>	
		(293,697,860)
Deposits made with the court for parcels of land in condemnation proceedings do not provide current financial resources and therefore are not reported in the Governmental Fund financial statements		639,286
Net Assets of Governmental Activities		<u><u>\$ 5,365,587,453</u></u>

See accompanying notes to the basic financial statements.

## State of Hawaii, Department of Transportation, Highways Division

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
For the Fiscal Year Ended June 30, 2007

	State Highway Fund	Debt Service Fund	Capital Projects Fund	Total
Expenditures:				
Operations and maintenance:				
Oahu highways and services	\$ 95,144,684	\$ -	\$ -	\$ 95,144,684
Hawaii highways and services	24,294,852	-	-	24,294,852
Maui highways and services	17,831,463	-	-	17,831,463
Kauai highways and services	10,452,813	-	-	10,452,813
Molokai highways and services	1,027,014	-	-	1,027,014
Lanai highways and services	255,163	-	-	255,163
Pass through for County highways and services	16,686,416	-	-	16,686,416
Administration of Highways Division	33,905,856	-	-	33,905,856
Surcharge on gross receipts	8,091,700	-	-	8,091,700
Motor Vehicle Safety Office	8,710,955	-	-	8,710,955
Capital projects	-	-	137,830,488	137,830,488
Debt service:				
Principal payment	-	14,885,000	-	14,885,000
Interest expense	-	12,987,561	-	12,987,561
Total expenditures	<u>216,400,916</u>	<u>27,872,561</u>	<u>137,830,488</u>	<u>382,103,965</u>
Program Revenues:				
Charges for services:				
Vehicle registration fees	20,242,953	-	-	20,242,953
Other fees and permits	2,916,262	-	-	2,916,262
Penalties and fines	1,266,243	-	-	1,266,243
Rentals	974,813	-	-	974,813
Operating grants and contributions	46,974,987	-	-	46,974,987
Capital grants and contributions	-	-	86,338,003	86,338,003
Total program revenues	<u>72,375,258</u>	<u>-</u>	<u>86,338,003</u>	<u>158,713,261</u>

See accompanying notes to the basic financial statements.



## State of Hawaii, Department of Transportation, Highways Division

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
For the Fiscal Year Ended June 30, 2007

	State Highway Fund	Debt Service Fund	Capital Projects Fund	Total
General Revenues:				
Taxes:				
Fuel Taxes	85,618,275	-	-	85,618,275
Rental motor and tour vehicle surcharge taxes	46,988,960	-	-	46,988,960
Vehicle weights taxes	32,777,015	-	-	32,777,015
Interest income	18,238,962	-	-	18,238,962
Non-imposed fringe benefits	1,487,783	-	-	1,487,783
Total general revenues	185,110,995	-	-	185,110,995
Excess (deficiency) of revenues over expenditures	41,085,337	(27,872,561)	(51,492,485)	(38,279,709)
Other Financing Sources (Uses):				
Transfers in	-	27,872,561	15,709,582	43,582,143
Transfers out	(62,361,161)	-	-	(62,361,161)
Total other financing sources (uses)	(62,361,161)	27,872,561	15,709,582	(18,779,018)
Deficiency of revenues and other financing sources over expenditures and other financing uses	(21,275,824)	-	(35,782,903)	(57,058,727)
Fund Balances:				
Beginning of year	257,317,829	-	114,239,877	371,557,706
End of year	\$ 236,042,005	\$ -	\$ 78,456,974	\$ 314,498,979

See accompanying notes to the basic financial statements.

## State of Hawaii, Department of Transportation, Highways Division

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities  
For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ (57,058,727)

Amounts reported for governmental activities in the statement of  
activities are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated  
over their estimated useful lives and reported as depreciation  
expense:

Expenditures for capital assets	139,155,284	
Less current fiscal year depreciation and loss on disposal	<u>(231,003,194)</u>	
		(91,847,910)

Repayment of bond principal is reported as expenditures in the  
Governmental Funds financial statements, but the repayment reduces  
long-term liabilities in the Government Wide financial statements

14,885,000

Bond issue costs, original issue premium, and deferred amount on  
refunding are reported as incurred in Governmental Funds as they  
require the use of current financial resources. However, in the  
Government-Wide financial statements, these expenses are deferred  
and amortized to expense over the remaining life of the related bond:

Amortization of bond premiums	1,745,385	
Amortization of deferred amount on refunding	(819,399)	
Amortization of deferred bond issuance costs	<u>(230,000)</u>	
		695,986

Other revenues and expenditures in the Government Wide financial  
statements do not provide or use current financial resources and  
therefore are not reported as revenues and expenditures in  
Governmental Funds financial statements

	75,136	
Change in Net Assets - Governmental Activities	<u>\$ (133,250,515)</u>	

See accompanying notes to the basic financial statements.

## State of Hawaii, Department of Transportation, Highways Division

State Highway Fund

Statement of Revenues and Expenditures - Budget and Actual

For the Fiscal Year Ended June 30, 2007

	Original	Final	Actual on Budgetary Basis	Variance Over (Under)
Revenues:				
Fuel taxes	\$ 83,889,000	\$ 83,889,000	\$ 85,618,276	\$ 1,729,276
Vehicle weight taxes	32,243,000	32,243,000	33,309,160	1,066,160
Rental motor and tour vehicle surcharge tax	51,594,000	51,594,000	46,988,960	(4,605,040)
Vehicle registration fees	21,026,000	21,026,000	20,765,412	(260,588)
Interest income	10,000,000	10,000,000	16,203,816	6,203,816
Other fees and penalties	4,028,200	4,028,200	8,103,774	4,075,574
	<u>202,780,200</u>	<u>202,780,200</u>	<u>210,989,398</u>	<u>8,209,198</u>
Expenditures:				
Operations and maintenance:				
Oahu highways and services	65,731,575	68,578,002	68,578,001	(1)
Hawaii highways and services	26,787,291	24,617,291	23,656,801	(960,490)
Maui highways and services	17,472,079	17,442,079	16,757,833	(684,246)
Kauai highways and services	12,858,419	13,152,607	12,187,436	(965,171)
Molokai highways and services	4,161,302	4,161,302	3,775,557	(385,745)
Lanai highways and services	824,931	1,994,931	1,858,903	(136,028)
Administration of Highways				
Division including debt service	78,664,294	69,743,402	59,075,359	(10,668,043)
State of Hawaii surcharge on gross receipts	7,710,000	7,710,000	8,136,000	426,000
Motor Vehicle Safety Office	5,924,225	6,019,119	6,014,486	(4,633)
	<u>220,134,116</u>	<u>213,418,733</u>	<u>200,040,376</u>	<u>(13,378,357)</u>
Excess (deficiency) of revenues over expenditures and other uses	<u>\$ (17,353,916)</u>	<u>\$ (10,638,533)</u>	<u>\$ 10,949,022</u>	<u>\$ 21,587,555</u>

See accompanying notes to the basic financial statements.

# State of Hawaii, Department of Transportation, Highways Division

Agency Fund

Statement of Asset and Liabilities

June 30, 2007

	<u>Asset</u>	<u>Agency Fund</u>
Cash		\$ 10,041,839
Total asset		<u>\$ 10,041,839</u>
	<u>Liabilities</u>	
Due to Others		\$ 10,041,839
Total liabilities		<u>\$ 10,041,839</u>

See accompanying notes to the basic financial statements.

# **State of Hawaii**

## **Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

### **1. Financial Reporting Entity**

Act 1, Session Laws of Hawaii (SLH), Second Special Session 1959, the Hawaii State Government Reorganization Act of 1959 (Act), established the Department of Transportation (Department) whose function is to establish, maintain, and operate transportation facilities of the State of Hawaii (State), including highways, airports, harbors and such other transportation facilities and activities as may be authorized by law. The Department's activities are carried out through three primary operating divisions: Airports, Harbors, and Highways (Division). Through the Division, the Department has general supervision of the management and maintenance of the State Highways System and the location, design, and construction of new highways and facilities. The Division provides supervision to assure completion of State highway contracts in accordance with plans and specifications.

Taxes, fees and charges authorized and collected relating to the operation and use of motor vehicles on public highways of the State are deposited into the State Highway Fund, and expenditures for purposes of the Act are made from the State Highway Fund.

The State Highway Fund also includes the Motor Vehicle Safety Office (MVSO). The MVSO was originally established as the Highway Safety Coordinator's Office to implement the 1967 Hawaii Highway Safety Act. It was reorganized by the 1977 State Legislature to encompass the additional duty of the safety of operations of heavy motor vehicles. The MVSO is assigned as a staff office under the Division.

### **2. Significant Accounting Policies**

#### **a. Basis of Presentation**

The Division's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

#### **b. Governmental Funds Financial Statements**

The accounts of the Division are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**2. Significant Accounting Policies (continued)**

**b. Governmental Funds Financial Statements (continued)**

activities are controlled. For financial reporting purposes, the Division includes all funds that are controlled by or dependent on the Division's administrative head. Control by or dependence on the Division was determined on the basis of statutory authority and monies flowing through the Division to each fund or account.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Division considers all revenues reported in the Governmental Funds to be available if the revenues are collected within 90 days after year-end. Revenues susceptible to accrual include federal grants and tax and fee revenues. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in Governmental Funds. Proceeds of general long-term debt are reported as other financing sources.

A description of the funds administered by the Highways Division and included in the Governmental Funds financial statements follows:

State Highway Fund – The State Highway Fund generally accounts for revenues and expenditures for highway operations and maintenance and administration.

The State Highway Fund is a special revenue fund of the State established by Section 248-8, Hawaii Revised Statutes (HRS). All fuel taxes collected under Section 243-4, HRS except county fuel taxes, aviation fuel taxes, and taxes on fuel sold for use by small boats are deposited in the State Highway Fund.

Section 248-9, HRS provides that monies in the State Highway Fund shall be expendable by the Department of Transportation for the design, construction, reconstruction, repair and maintenance, and for acquisition of rights-of-way for public highways included in the State Highway Fund established under Section 264-41, HRS.

Debt Service Fund – The Debt Service Fund accounts for the Division's financial resources obtained and used for the payment of principal and interest on State of Hawaii Highway Revenue Bonds.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**2. Significant Accounting Policies (continued)**

**b. Governmental Funds Financial Statements (continued)**

Capital Projects Fund – The Capital Projects Fund accounts for the Division’s construction projects and the related sources of financing.

The accompanying financial statements include highway projects authorized by legislative acts through June 30, 2007.

**c. Government-Wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The effect of interfund activity has been removed from these financial statements.

Statement of Net Assets – The statement of net assets includes all capital assets and long-term liabilities that are excluded from the Governmental Funds financial statements. The net assets are reported in three categories: invested in capital assets, net of related debt; restricted for revenue bonds; and unrestricted.

Statement of Activities – The statement of activities reports expenses and revenues in a format that focuses on the cost of the Division’s programs. Revenues are classified as either program revenues or general revenues. Program revenues include charges paid by users, as well as capital or operating grants. Revenues that are not classified as program revenues, including all taxes are presented as general revenues.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**2. Significant Accounting Policies (continued)**

**d. Fiduciary Fund Financial Statements**

The agency fund is used to account for assets held by the Division on behalf of other departments of the State. Cash reported in the agency fund statement of assets and liabilities includes cash in the State Treasury, including deposits received and held for others in the amount of \$10,041,839 at June 30, 2007.

**e. Cash and Restricted Cash**

The State has an established policy whereby all unrestricted and certain restricted cash is invested in the State's investment pool. Section 36-21, HRS, authorizes the State to invest in obligations of the State, the U.S. Treasury, agencies and instrumentalities, certificates of deposit, and bank repurchase agreements.

Information relating to individual bank balances, insurance, and collateral of cash deposits is not available since such information is determined on a statewide basis and not for individual departments or divisions. A portion of the bank balances is covered by federal deposit insurance or by collateral held by the State Treasury, or by the State's fiscal agents in the name of the State. Other bank balances are held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations. Accordingly, these deposits are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. For demand or checking accounts and certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balance to limit its exposure to custodial credit risk. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State. The State also requires that no more than 60% of the State's total funds available for deposit and on deposit in the State Treasury may be deposited in any one financial institution.

Restricted cash consists of monies and other resources, the use of which is legally restricted. Restricted cash accounts for the principal and interest amounts accumulated to make debt service payments on the Division's revenue bonds and also include security deposits collected from third parties.



**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**2. Significant Accounting Policies (continued)**

**f. Receivables**

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on collection history and current information regarding the credit worthiness of the tenants and others doing business with the Division. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected. At June 30, 2007, the allowance for uncollectible receivables was approximately \$159,000.

**g. Capital Assets**

Capital assets, which include land and land improvements, buildings and improvements, vehicles and equipment, infrastructure (i.e., roads, bridges, tunnels), and construction in progress, are reported in the government-wide statement of net assets. Such assets are recorded at cost or at estimated fair market value at the date of donation. Capital outlays are recorded as expenditures of the State Highway Fund or Capital Projects Fund in the governmental funds and as assets in the government-wide statement of net assets to the extent the capitalization threshold is met. Capital assets are depreciated by the straight-line method over their useful lives estimated by management as follows:

<u>Class of Assets</u>	<u>Estimated Useful Life</u>	<u>Capitalization Threshold</u>
Land improvements	15 years	\$ 100,000
Buildings	30 years	\$ 100,000
Building improvements	30 years	\$ 100,000
Vehicles and equipment	5 to 7 years	\$ 5,000
Infrastructure	13 to 46 years	\$ 100,000

Disposals of assets are recorded by removing the costs and related accumulated depreciation from the accounts with the resulting gain or loss recorded in operations.

Repairs and maintenance, and minor replacements, renewals, and betterments are charged against operations. Major replacements, renewals, and betterments are capitalized.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**2. Significant Accounting Policies (continued)**

**h. Accrued Vacation and Compensatory Pay**

The Division accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation is earned at the rate of 168 or 96 hours per calendar year, depending on the employee's date of hire. Accumulation of such vacation is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment.

**i. Long-Term Obligations**

In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums, issuance costs, and deferred amounts on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium and deferred amounts on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the Governmental Funds Financial Statements, bond premiums and issuance costs are recognized during the current period. The face amount of debt and any related premium are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**j. Encumbrances**

The Division's accounting procedures provide for the recording of commitments as encumbrances at the time contracts are awarded and executed. Purchase orders issued for materials, supplies, and services chargeable to annual appropriations for operating costs, which are outstanding at the end of the year, are also encumbered. Encumbrances are recorded as a reservation of fund balance in the Governmental Funds balance sheet. The related expenditures are reported in the period in which the liability is incurred. Encumbrances are not recognized in the government-wide statement of net assets.

**k. Employees' Retirement System**

The Division's contributions to the Employee's Retirement System of the State of Hawaii (ERS) are based on the current contribution rate determined by the State Department of Budget and Finance. The Division's policy is to fund its required contribution each pay period.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**2. Significant Accounting Policies (continued)**

**l. Risk Management**

The Division is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The State is self-insured for workers' compensation as discussed in Note 16. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

**m. Intrafund and Interfund Transactions**

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements.

**n. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**o. New Accounting Pronouncements**

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expense and related liabilities (assets), note disclosures, and if applicable, required supplementary information in the financial reports of state and local governmental employers. The Statement requires systematic, accrual-basis measurement and recognition of OPEB expense over a period that approximates employees' years of service, and provides information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**2. Significant Accounting Policies (continued)**

**p. New Accounting Pronouncements (continued)**

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2006. Management has not completed its determination of the impact on the financial statements once the provisions of this Statement are implemented.

**3. Budgets and Budgetary Accounting**

**a. State Highway Fund**

In the Governmental Funds State Highway Fund Statement of Revenues and Expenditures - Budget and Actual (non-GAAP budgetary basis), amounts reflected as original and amended budgeted revenues are the official estimates as compiled by the Division's management and the State Department of Budget and Finance at the time of budget consideration and adoption by the State Legislature. Revenue received from federal grants-in-aid is not included in the State Highway Fund Statement of Revenues and Expenditures - Budget and Actual (non-GAAP budgetary basis) since such grants are normally reimbursements of costs incurred on approved projects.

In the case of expenditures, the original and amended budgeted amounts reflected on the Governmental Fund State Highway Fund Statement of Revenues and Expenditures - Budget and Actual (non-GAAP budgetary basis) are derived from: the Supplemental Appropriations Act of 2006 (Act 160, SLH 2006) authorizations for expenditures for operating purposes for the Division of \$214,209,891 and the MVSO \$5,924,225.

Allotments are made and expenditures are controlled at the program level reflected in the Governmental Funds State Highway Fund Statement of Revenues and Expenditures - Budget and Actual (non-GAAP budgetary basis). State Highway Fund allotments lapse at year-end.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**3. Budgets and Budgetary Accounting (continued)**

**a. State Highway Fund (continued)**

The reconciliation of the budgetary actual excess of revenues over expenditures as shown on the Governmental Fund statement of revenues and expenditures-budget and actual-State Highway Fund (non-GAAP budgetary basis) to the Governmental Funds statement of revenues, expenditures, and change in fund balance-State Highway Fund is as follows:

Excess of revenues over expenditures, non-GAAP budgetary basis	\$ 10,949,022
Federal grants-in-aid	46,974,987
Operating transfers out of State of Hawaii for debt service	17,370,368
Pass through expenditures for county projects	(16,686,416)
Other adjustments to modified accrual basis of accounting	<u>(17,522,624)</u>
Excess of revenues over expenditures, GAAP basis	<u><u>\$ 41,085,337</u></u>

**b. Capital Projects Fund**

Excess Capital Projects Fund allotments lapse after completion of the project, which is generally two or three years subsequent to allotment. Funds allotted as part of a qualified federal award program do not lapse.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**4. Tax and Fee Revenues**

**a. State Fuel Tax**

The primary source of revenue for the State Highway Fund is the state tax on liquid (motor vehicle) fuel. For fiscal year 2007, the tax imposed on each gallon of fuel was as follows:

Gasoline	16 cents
Diesel Fuel:	
Non-highway use	1 cent
Highway use	16 cents
Liquefied Petroleum Gas	5.2 cents

**b. Vehicle Weight Tax and Penalties**

The vehicle weight tax was 0.75 to 1.25 cents per pound of net vehicle weight, to a maximum of \$150 per vehicle.

**c. Rental Motor and Tour Vehicle Surcharge Tax**

The rental motor vehicle surcharge tax was \$3 a day or any portion of a day that a rental motor vehicle is rented or leased. The tour vehicle surcharge tax was \$65 a month for tour vehicles categorized by the Public Utilities Commission as an over 25-passenger carrier vehicle and \$15 a month for tour vehicles categorized as an 8 to 25 passenger carrier vehicle.

**d. Vehicle Registration and Motor Carrier Safety Inspection Fee**

The vehicle registration fee was \$25 per vehicle, of which \$5 is earmarked for deposit into the Emergency Medical Services (EMS) special fund. During the year ended June 30, 2007 the Division collected \$5,264,742 on behalf of the EMS special fund. All amounts were disbursed to the EMS special fund. Accordingly, no amounts are reported in the financial statements at June 30, 2007. The motor carrier safety inspection fee was \$1.50 per vehicle every six months.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**5. Federal Grants-In-Aid**

The Division has projects in progress in which part of the funding is being provided by the Federal Highway Administration (FHWA) through grants-in-aid. Such projects are generally accounted for in the Capital Projects and State Highway Funds. At June 30, 2007, receivables totaling \$19,251,842 from the U.S. Government are comprised of billed costs, pending reimbursement, as well as unbilled costs, which are eligible for reimbursement.

In addition, the MVSO has projects in progress in which part of the funding is being provided through federal grants-in-aid. The grants contain various compliance requirements, which must be met by the MVSO, including a matching of the grant amounts with state and local highway safety expenditures as defined in a formula. MVSO's matching requirement is met through the expenditures of the Division of Driver Education, The Judiciary, State of Hawaii. Cost reimbursement by the FHWA and National Highway Traffic Safety Administration (NHTSA) are subject to final audit by federal agencies. In addition, FHWA and NHTSA reserve the right to examine the Division for economy, efficiency, and program results. The Division's management believes that any federal aid received as of June 30, 2007 that might be required to be repaid to the FHWA or NHTSA based on federal audits would not be material to the financial position of the various funds of the Division at June 30, 2007, or the results of operations of such funds for the year then ended.

**6. Non-Imposed Fringe Benefits**

Payroll fringe benefit costs of employees of the Division are assumed by the State and are not charged to the Division's operating funds. These costs totaling \$1,487,783 for fiscal year 2007 has been reported as revenues and expenditures in the State Highway Fund.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**7. Capital Assets**

Changes in capital assets during the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Transfers	Balance June 30, 2007
<b>Nondepreciable assets:</b>					
Land	\$ 420,543,146	\$ 10,234,356	\$ (42,530)	\$ -	\$ 430,734,972
Construction in progress	189,660,341	121,973,361	-	(95,313,035)	216,320,667
Infrastructure	719,443,351	-	-	10,959,530	730,402,881
Total	1,329,646,838	132,207,717	(42,530)	(84,353,505)	1,377,458,520
<b>Depreciable assets:</b>					
Land improvements	2,215,473	-	-	-	2,215,473
Buildings and improvements	25,818,021	-	-	2,029,126	27,847,147
Vehicles and equipment	49,019,162	6,947,567	(2,097,691)	-	53,869,038
Infrastructure	7,505,188,781	-	-	82,324,379	7,587,513,160
Total	7,582,241,437	6,947,567	(2,097,691)	84,353,505	7,671,444,818
Less accumulated depreciation	(3,477,349,386)	(230,960,664)	2,097,691	-	(3,706,212,359)
Depreciable assets, net	4,104,892,051	(224,013,097)	-	84,353,505	3,965,232,459
Capital assets, net	\$ 5,434,538,889	\$ (91,805,380)	\$ (42,530)	\$ -	\$ 5,342,690,979



**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**8. General Long-Term Liabilities**

Changes in general long-term liabilities during the year ended June 30, 2007 were as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amount Due Within One Year
Accrued vacation payable	\$ 10,287,013	\$ 3,884,768	\$ (3,878,218)	\$ 10,293,563	\$ 2,621,275
Workers' compensation payable	4,631,047	580,720	(580,720)	4,631,047	580,730
Revenue bonds payable	308,879,236	-	(15,220,986)	293,658,250	14,885,000
Total governmental activities long-term liabilities	\$ 323,797,296	\$ 4,465,488	\$ (19,679,924)	\$ 308,582,860	\$ 18,087,005

**9. Revenue Bonds**

In 1993, the Director of the Department of Transportation issued the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds* (Certificate). Subsequent issues of revenue bonds were covered by supplemental certificates to the original 1993 Certificate.

These revenue bonds are payable solely from, and collateralized solely by, the revenues held in the State Highway Fund consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, rental motor vehicle and tour vehicle surcharge taxes, and interest earnings on monies previously credited to the State Highway Fund. The proceeds of the revenue Bonds are used to finance certain highway capital improvement projects and other related projects for the State Highways System.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**9. Revenue Bonds (continued)**

On September 1, 1996, the Division issued \$55,000,000 in State of Hawaii Highway Revenue Bond Series 1996 (1996 Bonds). The 1996 Bonds bear interest at rates ranging from 3.8% to 6.0% and mature in increasing annual installments through 2016. The 1996 Bonds maturing on and after July 1, 2006 are subject to redemption at the option of the State at prices ranging from 102% to 100% plus accrued interest.

On July 1, 1998, the Division issued \$94,920,000 in State of Hawaii Highway Revenue Bond, Series 1998 (1998 Bonds). The 1998 Bonds bear interest at rates ranging from 4.5% to 5.5% and mature in increasing annual installments through 2018. The 1998 Bonds maturing on and after July 1, 2009 through July 1, 2016 are subject to redemption at the option of the State on or after July 1, 2008 at prices ranging from 101% to 100% plus accrued interest.

On October 1, 2000, the Division issued \$50,000,000 in State of Hawaii Highway Revenue Bond, Series 2000 (2000 Bonds). The 2000 Bonds bear interest at rates ranging from 4.4% to 5.5% and mature in increasing annual installments through 2020. The 2000 Bonds maturing on and after July 1, 2011 through July 1, 2020 are subject to redemption at the option of the State after July 1, 2010 at a price of 100% plus accrued interest.

On October 3, 2001, the Division issued \$70,000,000 in State of Hawaii Highway Revenue Bond, Series 2001 (2001 Bonds). The 2001 Bonds bear interest at rates ranging from 3.8% to 5.4% and mature in increasing annual installments through 2022. The 2001 Bonds maturing on and after July 1, 2011 are subject to redemption at the option of the State at a redemption of 100% plus accrued interest. These bonds were issued at a premium of \$2,787,593, which will be amortized over the life of the bonds using the effective interest method.

On April 15, 2003, the Division issued \$44,940,000 in State of Hawaii Highway Revenue Bonds, Series 2003 (Refunding Series of 2003) with interest rates ranging from 2.00% to 5.25% to refund \$45,350,000 of its outstanding 1993 Bonds with interest rates ranging from 2.6% to 5.0%. The net proceeds of \$46,749,377 (after payment of \$452,013 in underwriting fees, insurance, and other costs), along with an additional \$519,500 from the State Highways Fund were deposited in an irrevocable trust with an escrow agent to be used to purchase non-callable direct obligations of the United States, maturing in amounts and bearing interest at such rates sufficient to meet the debt service requirements of the 1993 Bonds. On July 1, 2003, the refunded bonds were redeemed at a price of 102%. As a result, the refunded portion of the 1993 Bonds is considered to be defeased and the liability for those bonds has been removed from the financial statements.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**9. Revenue Bonds (continued)**

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$1,399,377. This difference, reported in the accompanying financial statements as a deduction from Highways revenue bonds, is being charged to interest expense over the next 21 years. The Division in effect reduced its aggregate debt service payments by approximately \$4,165,000 over the next 21 years and obtained an economic gain (difference between the present values of the old and new debt service payment) of approximately \$3,687,000.

On February 20, 2005, the Division issued \$60,000,000 in State of Hawaii Revenue Bonds Series A (2005A Bonds). The 2005A Bonds bear interest at rates ranging from 3.0% to 5.0% and mature in annual installments through 2025. The 2005A Bonds maturing on and after July 1, 2016 are subject to redemption at the option of the State at 100% plus accrued interest. These bonds were issued at a premium of \$3,155,926, which will be amortized over the life of the bonds using the effective interest method.

On February 20, 2005, the Division issued \$123,915,000 in State of Hawaii Revenue Bonds Series B (2005B Bonds) with interest rates ranging from 3.0% to 5.25% to refund \$128,705,000 of outstanding bonds (refunded bonds) with interest rates ranging from 4.95% to 5.6% comprised of the following:

Series	Interest Rate	Principal Refunded
1996	5.25% - 5.6%	\$ 26,135,000
1998	5.0% - 5.25%	30,275,000
2000	4.95% - 5.5%	31,340,000
2001	5.25% - 5.375%	40,955,000

The net proceeds of \$137,847,002 (after payment of \$1,581,758 in underwriting fees, insurance, and other costs), along with an additional \$1,401,015 from the Highways Revenue Fund were deposited in an irrevocable trust with an escrow agent to be used to purchase non-callable direct obligations of the United States, maturing in amounts and bearing interest at such rates sufficient to meet the debt service requirements of the refunded bonds. As a result, the refunded portion of the bonds is considered to be defeased and the liability for those portions of the bonds has been removed from the financial statements.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**9. Revenue Bonds (continued)**

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$7,439,199. This difference, reported in the accompanying financial statements as a deduction from Highway revenue bonds, is being charged to interest expense over the next 17 years. The Division in effect reduced its aggregate debt service payments by approximately \$12,042,000 over the next 17 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$8,944,000.

The following is a summary of revenue bonds issued and outstanding at June 30, 2007:

Series	Interest Rate	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
1996	3.8% - 6.0%	2016	\$ 55,000,000	\$ 8,500,000
1998	4.5% - 5.5%	2018	94,920,000	31,575,000
2000	4.4% - 5.5%	2020	50,000,000	8,720,000
2001	3.8% - 5.4%	2022	70,000,000	19,580,000
2003	2.0% - 5.25%	2013	44,940,000	33,080,000
2005	3.0% - 5.25%	2025	183,915,000	181,855,000
			<u>\$ 498,775,000</u>	283,310,000
		Add: unamortized premium		16,215,543
		Less: deferred amount on refunding		(5,867,293)
		Less: current portion		<u>(14,885,000)</u>
		Noncurrent portion		<u>\$ 278,773,250</u>

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**9. Revenue Bonds (continued)**

During 2007, \$27,872,561 was transferred from the State Highway Fund to the Debt Service Fund for repayment of Revenue Bonds principal of \$14,885,000 due in July 2007 and interest of \$12,987,561.

The approximate maturities in each of the next five years and thereafter are as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 14,885,000	\$ 13,242,228	\$ 28,127,228
2009	15,495,000	12,597,053	28,092,053
2010	16,150,000	11,880,394	28,030,394
2011	16,935,000	11,156,285	28,091,285
2012	17,570,000	10,444,598	28,014,598
2013-2017	101,370,000	38,823,044	140,193,044
2018-2022	78,860,000	13,389,655	92,249,655
2023-2026	22,045,000	1,772,650	23,817,650
Total	<u>\$283,310,000</u>	<u>\$113,305,907</u>	<u>\$396,615,907</u>

**10. Other Financing Sources and Uses/Transfers**

Operating transfers accounted for in the Governmental Funds statement of revenues, expenditures, and changes in fund balances as other financing sources and uses, and on the government-wide statement of activities as transfers, are summarized as follows:

Description	Transfers In (Out)					Statement of Activities
	State Highway Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	
Funding of highway capital projects	\$(15,709,582)	\$ -	\$15,709,582	\$ -	\$ -	\$ -
Reimbursement to State for debt service on general obligation bonds	(17,370,368)	-	-	(17,370,368)	-	(17,370,368)
Land parcels held for sale	(1,408,650)	-	-	(1,408,650)	1,408,650	-
Funding of revenue bond debt service	<u>(27,872,561)</u>	<u>27,872,561</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$(62,361,161)</u>	<u>\$ 27,872,561</u>	<u>\$15,709,582</u>	<u>\$(18,779,018)</u>	<u>\$1,408,650</u>	<u>\$ (17,370,368)</u>

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**10. Other Financing Sources and Uses/Transfers (continued)**

**a. Funding of Highway Capital Projects**

Funding of highway capital projects by the State Highway Fund is recognized when received by the Capital Projects Fund.

**b. Reimbursement to State for Debt Service**

Allocated portions of the State's general obligation bonds have been designated by the Director of Finance, State of Hawaii, to be reimbursed from the State Highway Fund. These bonds are the obligations of the State and are not included in these financial statements. The amount of the Division's reimbursement to the State for debt service is primarily determined by the Director of Finance, State of Hawaii.

The annual amounts required to amortize the designated portions of general obligation bonds as of June 30, 2007 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 14,413,816	\$ 2,483,310	\$ 16,897,126
2009	11,294,925	1,786,968	13,081,893
2010	6,720,599	1,325,388	8,045,987
2011	10,091,760	1,060,325	11,152,085
2012	7,517,802	648,874	8,166,676
2013-2017	16,044,271	840,692	16,884,963
2018-2021	961,722	16,754	978,476
Total	<u>\$ 67,044,895</u>	<u>\$ 8,162,311</u>	<u>\$ 75,207,206</u>

Debt service reimbursements are accounted for as expenditures of the Administration of Highway Division program on the Governmental Funds State Highway Fund Statement of Revenues and Expenditures - Budget and Actual (non-GAAP budgetary basis) and are accounted for as other financing transfers out of the State Highway Fund on the Governmental Funds statement of revenues, expenditures, and changes in fund balances. Reimbursement payments of \$17,370,368 consisted of \$14,202,572 for principal and \$3,167,796 for interest for the year ended June 30, 2007.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**12. Retirement Benefits**

**a. Employees' Retirement System (ERS)**

All eligible employees of the State and counties are required by Chapter 88, HRS, to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new non-contributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials, and persons employed in positions not covered by Social Security are precluded from the non-contributory plan. The non-contributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new non-contributory plan and receive a refund of employee contributions. All benefits vest after five and ten year credited service under the contributory and non-contributory plans, respectively.

Both plan options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited services or age 55 and 30 years of credit service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan are eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 are required to join the new hybrid plan.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**13. Retirement Benefits (continued)**

**b. Employees' Retirement System (ERS) (continued)**

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The Division's contribution to the ERS for fiscal years 2007, 2006, and 2005 was approximately \$5,939,000, \$5,753,000, and \$3,578,000, respectively, and represented the required contributions for each year.

**b. Post-Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the Division, pursuant to Chapter 87 HRS, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the Division pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the Division makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the Division pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the Division pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the Division pays the entire health care premium.

Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive reimbursement of the basic medical coverage premium.

Contributions are financed on a pay-as-you-go basis and are limited by State statute to the actual cost of the benefit coverage. During fiscal year 2007, expenditures of \$3,053,875 were recognized for post-retirement health care and life insurance benefits.



**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**12. Retirement Benefits (continued)**

**b. Post-Retirement Health Care and Life Insurance Benefits**

Effective July 1, 2003, the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

**c. Deferred Compensation Plan**

The State established a deferred compensation plan (plan) in accordance with Section 457 of the Internal Revenue Code, which enables State employees to defer a portion of their compensation. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of deferred compensation, as well as property and rights purchased with those amounts and income attributable to those amounts, are held in trust by third-party agents for the exclusive benefit of participants and their beneficiaries. The assets and liabilities of the deferred compensation plan are not reflected in the Division's financial statements.

**13. Transactions With Other Government Agencies**

The State assesses a surcharge of 5% for central service expenses on all receipts of the State Highway Fund, after deducting any amounts pledged, charged, or encumbered for the payment of bonds and interest during the year. The assessment amounted to approximately \$8,092,000 in fiscal year 2007.

The Division is also assessed a percentage of the cost of the general administration expenses of the Department. During fiscal year 2007, assessments net of amounts refunded amounted to approximately \$5,216,000.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**14. Operating Leases**

**a. Rental Expenditures**

The Division leases office and baseyard space under various long-term operating lease agreements expiring at various dates through fiscal year 2019. Rental expenditures are recorded based on the terms of the lease agreements. Scheduled minimum rental payments for succeeding fiscal years ending June 30 are as follows:

Years Ending June 30,	
2008	\$ 957,000
2009	957,000
2010	957,000
2011	957,000
2012	957,000
2013-2017	4,783,000
2018-2019	1,196,000
Total	<u>\$ 10,764,000</u>

The total rental expenditures during fiscal year 2007 for operating leases were approximately \$1,225,000.

**b. Rental Revenue**

The Division also is a lessor on various properties under non-cancelable lease agreements that expire through fiscal year 2044. Scheduled minimum revenues for succeeding fiscal years ending June 30 are as follows:

Years Ending June 30,	
2008	\$ 307,000
2009	307,000
2010	307,000
2011	307,000
2012	307,000
2013-2017	1,534,000
2018-2022	1,408,000
2023-2027	1,376,000
2028-2032	472,000
2033-2037	389,000
Thereafter	380,000
Total	<u>\$ 7,094,000</u>

## **State of Hawaii**

### **Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

#### **15. Commitments**

##### **c. Condemnation Proceedings**

The Division occasionally finds it necessary to condemn property for construction of highways. These proceedings require the Division to compensate the existing property owner for the fair market value of the real property. Prior to the determination of the fair market value, the Division is required to deposit funds in State courts for these proceedings. The amount of funds deposited in the State courts was \$639,286 at June 30, 2007. Such funds deposited may not be sufficient to cover the full amount required for compensation purposes. Management, however, believes any additional compensation in excess of amounts deposited with State courts will not be material to the financial statements of the Division.

##### **d. Accumulated Sick Leave**

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded in the Division's financial statements. However, a public employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credits in the ERS. Accumulated sick leave at June 30, 2007 aggregated approximately \$22,260,000.

#### **16. Risk Management**

##### **a. Property and Liability Insurance**

The Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and workers' compensation. The State generally retains the first \$1 million per occurrence of property losses and the first \$3 million with respect to general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$100 million for windstorm, \$40 million for boiler and machinery and \$50 million for terrorism. The annual aggregate limit for property loss is \$40 million for flood and earthquake. The limit per occurrence of general liability losses is \$10 million. For certain general liability claims, the annual aggregate limit is \$10 million. The State also has an insurance policy to cover crime risk with a deductible of \$500,000 per occurrence and a \$10 million annual aggregate limit.

**State of Hawaii**  
**Department of Transportation-Highways Division**

Notes to the Basic Financial Statements  
June 30, 2007

**16. Risk Management (continued)**

**b. Workers' Compensation**

The State is self-insured for workers' compensation. Accordingly, the Division is liable for workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims include the effects of specific incremental claim adjustment expenses, salvage and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. The workers' compensation reserve amounted to \$4,631,047 at June 30, 2007.

**17. Contingent Liabilities and Other**

The State is the defendant in lawsuits seeking damages allegedly related to State highways and highway construction contracts. While the ultimate liabilities, if any, in the disposition of these matters are presently difficult to estimate, it is management's belief that the outcomes are not likely to have a material adverse effect on the Division's financial position. In addition, the State has not determined whether the ultimate liabilities, if any, will be imposed on the State Highway Fund. Accordingly, no provisions for any liabilities that might result have been made in the accompanying financial statements.

**18. Deficit Balance**

At June 30, 2007, the Capital Projects Fund had an unreserved fund balance deficit of approximately \$270 million. Management intends to investigate and take corrective action to eliminate this deficit balance.

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

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PROPOSED FORM OF OPINION OF BOND COUNSEL

December \_\_, 2008

State of Hawaii  
Honolulu, Hawaii

Re: State of Hawaii Highway Revenue Bonds, Series 2008

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Hawaii (the "State") of \$\_\_\_\_\_ State of Hawaii Highway Revenue Bonds, Series 2008 (the "Bonds"), issued under and pursuant to the Constitution and statutes of the State, including particularly Part III of Chapter 39, Hawaii Revised Statutes, as amended (the "Act") and under and pursuant to the Certificate of the Director of Transportation of the State, dated as of August 1, 1993 (the "Master Certificate"), as heretofore amended and supplemented and as further amended and supplemented by the Eighth Supplemental Certificate of the Director of Transportation of the State, dated as of December \_\_, 2008 (the "Eighth Supplemental Certificate" and, together with the Master Certificate, the "Certificate"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Certificate.

In connection with the issuance of the Bonds, we have reviewed the Certificate, the Tax Exemption Certificate and Agreement of the State dated the date hereof, and such other proceedings, documents, instruments, showings and matters of law as we have deemed necessary to render this opinion.

It is our opinion that, subject to the State's compliance with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"), but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such State covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

We are also of the opinion that, under the laws of the State of Hawaii, as presently enacted and construed, interest on the Bonds is exempt from all taxation imposed by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer and estate taxes and the franchise tax imposed on banks and other financial institutions, pursuant to Chapter 235 of Title 14 of the Hawaii

Revised Statutes. No opinion is expressed regarding taxation of interest on the Bonds under any other provision of Hawaii law. Ownership of the Bonds may result in other Hawaii tax consequences to certain taxpayers, and we express no opinion regarding such collateral tax consequences arising with respect to the Bonds:

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

In rendering this opinion, we have relied upon certifications of the State with respect to certain material facts within the State's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,



APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "*Disclosure Certificate*") is executed and delivered by the State of Hawaii (the "*State*"), acting by and through the State Director of Transportation, in connection with the issuance of \$125,175,000 State of Hawaii Highway Revenue Bonds, Series 2008 (the "*2008 Bonds*"). The 2008 Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State and that certain Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds, dated as of August 1, 1993, as supplemented and amended by the Eighth Supplemental Certificate of the Director of Transportation Authorizing State of Hawaii Highway Revenue Bonds, Series 2008, dated as of December 1, 2008 (collectively, the "*Bond Certificate*").

Pursuant to Section 6.04 of the Eighth Supplemental Certificate, the State, acting by and through its Director of Transportation, agrees as follows:

*Section 1. Purpose of Disclosure Certificate.* This Disclosure Certificate is being executed and delivered by the State for the benefit of the Bondholders and Beneficial Owners of the 2008 Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

*Section 2. Definitions.* In addition to the definitions set forth in the Bond Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Information*" means the type of financial information and operating data set forth under the subheadings "REVENUE SOURCES—Historical Revenues" and "DEBT SERVICE COVERAGE—Debt Service Requirements for the Bonds" (where there is a change other than from scheduled principal maturities) in the front part of the final Official Statement, dated December 9, 2008, for the 2008 Bonds (the "*Official Statement*") and "INFORMATION RELATING TO REVENUE SOURCES" in Appendix B in the final Official Statement.

"*Audited Financial Statements*" means the audited financial statements of the State Highway Fund and any other fund of the State into which Revenues are deposited, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Government Accounting Standards Board and the Financial Accounting Standards Board of the Financial Accounting Foundation.

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2008 Bonds (including persons holding 2008 Bonds through a Clearing Agency, nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2008 Bonds for federal income tax purposes.

*"Dissemination Agent"* shall mean the Director of Transportation or any successor Dissemination Agent designated in writing by the Director of Transportation and which has filed with the Director of Transportation a written acceptance of such designation.

*"Filing Date"* means the first day of the tenth month following the end of each Fiscal Year (or the next succeeding business day if that day is not a business day).

*"Fiscal Year"* means each fiscal year of the Department of Transportation commencing on July 1 of each calendar year and ending on June 30 of the immediately succeeding calendar year.

*"Listed Events"* shall mean any of the events listed in subsection 4(a) of this Disclosure Certificate.

*"National Repository"* shall mean any Nationally Recognized Municipal Securities Information Repository as recognized from time to time by the SEC for purposes referred to in the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at [www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm).

*"Participating Underwriter"* shall mean the original underwriter of the 2008 Bonds required to comply with the Rule in connection with offering of the 2008 Bonds.

*"Repositories"* shall mean each National Repository and each State Repository.

*"Rule"* shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

*"State"* shall mean the State of Hawaii.

*"State Repository"* shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

*Section 3. Filing of Annual Information and Audited Financial Statements.* (a) The State is the only "obligated person" (as defined in the Rule) for the 2008 Bonds.

(b) The State shall provide, or shall cause the Dissemination Agent to provide, to each Repository:

(i) Annual information for the preceding Fiscal Year, and unaudited financial statements of the Pledged Funds if Audited Financial Statements are not provided at the same time, not later than the Filing Date for each Fiscal Year; and

(ii) Audited Financial Statements for the preceding Fiscal Year, not later than the later of (A) the Filing Date for each Fiscal Year or (B) 30 days after receipt thereof by the Department of Transportation.

Audited Financial Statements are expected to be available together with the Annual Information. The State is required to deliver, or cause to be delivered, such information in such manner and by such time so that the Repositories receive the information on or before the date specified.

The Annual Information may be submitted as a single document or as separate documents comprising a package and may cross-reference other information including official statements of debt issues of the State or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The State shall clearly identify each such other document so included by reference. The Audited Financial Statements may be submitted separately from the Annual Information.

If the Department's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under subsection 4(b).

(c) If the State is unable to provide to the Repositories the information described in subsection (b) by the Filing Date, the Director of Finance shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as *Exhibit A*.

(d) If the Director of Finance has appointed a Dissemination Agent, then not later than 15 Business Days prior to Filing Date, the Director of Transportation shall provide the Annual Information and Audited Financial Statements (or unaudited financial statements if the Audited Financial Statements are not available) to the Dissemination Agent.

(e) The Dissemination Agent shall:

(i) determine each year prior to the Filing Date the name and address of each National Repository and the State Repository, if any; and

(ii) if the Dissemination Agent is other than the Director of Finance, file a report with the Director of Finance certifying that the information described in subsection (b) has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

*Section 4. Reporting of Significant Events.* (a) Pursuant to the provisions of this Section 4, the State shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2008 Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;

3. modifications to rights of Bondholders,
4. bond calls other than scheduled mandatory sinking fund redemptions;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the 2008 Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform; or
11. release, substitution or sale of property securing repayment of the 2008 Bonds.

(b) Whenever the Director of Transportation or other responsible officials of the State become aware of the occurrence of a Listed Event, the State shall as soon as possible determine if such event would be material under applicable federal securities laws and, if so, the State shall prepare and provide or cause to be provided notice of such occurrence to each Repository.

Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) above need not be given under this subsection (b) any earlier than the notice (if any) of the underlying event is given to Bondholders of affected 2008 Bonds pursuant to the Bond Certificate.

*Section 5. Termination of Reporting Obligation.* The State's obligations under this Disclosure Certificate shall terminate (a) upon the legal defeasance, prior redemption or repayment in full of all of the 2008 Bonds or (b) when the Rule no longer applies to these 2008 Bonds. If such termination occurs prior to the final maturity of the 2008 Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 4(b).

*Section 6. Dissemination Agent.* The Director of Finance may, from time to time, appoint or engage a Dissemination Agent to assist the State in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State pursuant to this Disclosure Certificate.

*Section 7. Amendment; Waiver; Amendment to Accounting Principles to be Followed.*  
(a) Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (i) If the amendment or waiver relates to the definition of "Annual Information" or the provisions of subsection 3(a) or (b), or Section 5, it may only be made in connection with a

change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Obligated Person with respect to the 2008 Bonds, or the type of business conducted by the Obligated Person;

(ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel selected by the State, have complied with the requirements of the Rule at the time of the original issuance of the 2008 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver either (i) is approved by the Holders of the 2008 Bonds in the same manner as provided in the Bond Certificate for amendments to the Bond Certificate with the consent of Holders of the 2008 Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel selected by the State, materially impair the interests of the Holders or Beneficial Owners of the 2008 Bonds.

(b) In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State shall describe such amendment in the next Annual Information, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of the information being presented by the State.

(c) If the amendment changes the accounting principles to be followed in preparing financial statements from that specified in the definition of Audited Financial Statements, then (i) the State shall give notice of such amendment in the same manner as for a Listed Event under subsection 4(b), and (ii) the Annual Information for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the amended definition of accounting principles and those prepared on the basis of the former definition of accounting principles.

*Section 8. Additional Information—Supplements.* (a) Nothing in this Disclosure Certificate shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate.

If the State chooses to include any information in any Annual Information or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Information or notice of occurrence of a Listed Event.

(b) Nothing in this Disclosure Certificate shall be deemed to prevent the State from supplementing this Disclosure Certificate to provide that it shall also govern continuing disclosure for one or more issues of Additional Bonds (as defined in the Bond Certificate).

*Section 9. Failure to Perform.* (a) The agreements of the State set forth in Sections 3 and 4 of this Disclosure Certificate are intended to be for the benefit solely of the Bondholders and Beneficial Owners from time to time of the 2008 Bonds.

The sole remedy for any breach of this Disclosure Certificate by the State shall be limited, as hereinafter described, to a right of Bondholders and Beneficial Owners to cause proceedings at law or in equity to be instituted and maintained to obtain mandamus or specific performance by the State of its obligations hereunder. Any individual Bondholder or Beneficial Owner may institute and maintain, or cause to be instituted and maintained, such proceedings to require the State to provide or cause to be provided a pertinent filing if such a filing is due and has not been made. Any such proceedings challenging the adequacy of the information provided in accordance with this Disclosure Certificate may be instituted and maintained only by the Bondholders and the Beneficial Owners of not less than 25% in principal amount of the 2008 Bonds then outstanding or their agent.

(b) Any failure of the State to comply with any provisions of this Disclosure Certificate shall not be a default or an event of default with respect to the 2008 Bonds under the Bond Certificate.

*Section 10. Beneficiaries.* This Disclosure Certificate shall inure solely to the benefit of the State, the Dissemination Agent, the Participating Underwriter and Bondholders and Beneficial Owners from time to time of the 2008 Bonds and shall create no rights in any other person or entity.

*Section 11. Recordkeeping.* The Director of Finance shall maintain records of all Annual Information and notice of material Listed Events including the content of such disclosure, the names of the entities with whom such disclosures were filed and the date of filing such disclosure.

*Section 12. Governing Law.* This Disclosure Certificate shall be governed by the laws of the State.

Dated: December 17, 2008.

STATE OF HAWAII

By: \_\_\_\_\_  
Brennon T. Morioka  
Director  
Department of Transportation



**EXHIBIT A**

**[FORM OF]  
NOTICE TO REPOSITORIES OF  
FAILURE TO FILE ANNUAL INFORMATION**

Name of Issuer: State of Hawaii  
Name of Bond Issue: \$125,175,000 Highway Revenue Bonds, Series 2008  
Date of Issuance: December 17, 2008

NOTICE IS HEREBY GIVEN that the State has not provided the Annual Information with respect to the above-named Bonds as required by its Continuing Disclosure Certificate dated December 17, 2008. [The State anticipates that the Annual Information will be filed by \_\_\_\_\_].

Dated: \_\_\_\_\_, 2008.

STATE OF HAWAII

By: \_\_\_\_\_

Title: \_\_\_\_\_

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